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WITH THE EDITORS

Good Management Costs Money

SUPPOSE a corporation decides to jump into the market and spend $10,000,000 for stocks of materials over and above its normal needs because its management believes that is a shrewd thing to do. Will the stockholders squawk? They will not! They will not bat an eye if the annual report shows that a goodly part of the company's cash has been utilized in an inventory expansion that may or may not prove profitable. Many, in fact, will not even examine this balance sheet item.

Suppose the same corporation decides to spend $5,000,000 of its available funds to construct a new factory and warehouse at Kansas City. Will the stockholders utter a word of protest? They will not.

But let this identical corporation pay President Smith a salary of $100,000 a year or Vice-President Jones a salary of $40,000 a year and some stockholders will grumble bitterly that this remuneration is excessive. Surely this is a curious psychological phenomenon—encouraged, of course, by political witch-doctors who are happy when they can lead the public to infer that any business executive drawing a large salary is probably a swindler or in any event a stuffed shirt.

And yet whether the hypothetical ventures cited above make or lose millions of dollars depends almost entirely on the judgment, knowledge and experience of a small number of top executives. In virtually every large corporation their remuneration is a tiny fraction of both the assets administered and the business transacted. They are likewise a tiny fraction of the wages paid labor and of the returns paid investors.

Of all corporate assets good management is the most vital and the most valuable. Why is it that General Motors, Ford and Chrysler dominate the automobile market, while literally scores of other automobile manufacturers have passed out of the picture over the past twenty or thirty years? It was not an advantage of large capital, for the three now dominant started out with no more capital than various competitors. It was not a difference in labor. The same labor was available to all. The difference was in management.

Necessarily in a competitive economic system there is a cash market for executive brains. Considering the role they play in every successful corporation, the surprising thing is that the market price is not higher. Remember that when you scan the next list of executive salaries publicized by the S E C. Remember also that whereas you concern yourself with the *net* earnings of your company, after taxes have been deducted, it is the *gross* earnings of the company officer that are played up by the newspapers. After setting aside Uncle Sam's share, he actually gets about $66,000 and not $100,000; and it is still less if he is subject to a state income tax.

In the Next Issue

Coming Bear Market in Gilt-Edged Bonds?

By J. S. Williams

How Political Platforms Will Influence the Business Outlook

By John C. Cresswill

Fortunes at Stake in Industry's Changes

By Ralph L. Woods

E. Kenneth Burger
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Associate Editors

The Trend of Events

THE MAN AND THE PLATFORM

THE Republican party has well begun the political campaign of 1936 — a campaign whose outcome will determine the bent of national social and economic policy and practice for years if not for an age. Choosing as the Presidential nominee Alfred Mossman Landon, who by his personal, geographical and political antecedents incarnates his party as it was in an earlier day, it has adopted a platform that recalls its liberal origin and takes its stand on the freedom expounded by the Declaration of Independence and the Constitution.

Following the pattern of the Declaration of Independence, the platform begins with a preamble that is a devastating arraignment of the New Deal, citing it by that name and not as the Democratic party, as a departure alike from Republicanism and Democracy in the direction of legislative and executive theories and practices which are alien to Americanism and liberty. The platform thus cleverly escapes the reproach of Bourbonism and fossilized conservatism by raising the standard of revolt against a modern throw-back to tyranny. The Republican party is adroitly made to appear as the true champion of democratic progress, standing on the ancient national foundation. It is put into a logical position to oppose the alien philosophy of the New Deal and its anti-liberal practices while avoiding the charge of plagiarism in its inevitable substantial concurrence with the objectives of much of the legislation of the Roosevelt Administration.

As a whole the platform is a fabric that is calculated to command the support of all who are in fundamental disagreement with the New Deal and yet approve of much of its legislation. At the same time it does not alienate a single Republican of the hereditary partisan type or antagonize a conservative Democrat. It will come short of giving full satisfaction to those elements which find no fault with things as they were and believe that *laissez faire* economic policies are still compatible with the maximum of individual freedom.

Among the pronouncements of the platform that are of especial interest to business and finance the paragraphs on Government finance and banking will be well received, although it will be noted that no mention is made of the Federal Reserve System. Those who regret that return to the gold standard was not specified will be mollified by Mr. Landon's interpretative statement that to him "sound money" means gold-based and gold-convertible money. Big business will complain of the sweeping declarations against monopoly as a license for Congress to enact almost any degree of legislation inimical to large institutions. The secur-

ity and labor planks could hardly be less broad in this day and age—and so with agriculture and relief; and no fault can be found with the position that re-employment is an incident of business freedom. Business can hardly find any fault with the position in favor of decentralization of relief. Many business men will regret the opposition to the present policy of reciprocal tariff agreements, but that policy has many enemies.

The country as a whole demanded that the Republican party should fullfill its duty as the opposition party, by making it possible for the judicially minded citizen to register his approval or disapproval of the present Administration. That demand has been met.

The candidate is solemnly pledged (a sardonic allusion to Roosevelt's contemptuous disdain of his 1932 platform) to support his platform "in private honor and public credit." This year's political battle will mean something. Even if the Democratic platform should repudiate by soft words the advance made toward collectivism and bureaucracy, there will still remain an impassable chasm between the record and the Republican program. Men may be swayed this way and that by wholly selfish considerations, but the man or woman who is conscientiously impelled to vote one way or the other on fundamental national policy has no excuse for not following his or her convictions.

SAVING FOR A RAINY DAY

DIVIDENDS distributed by American corporations during the first five months of this year are estimated to have totalled more than $1,365,000,000. This represents a gain of 21 per cent over the figure for the corresponding months of 1935. It is closely in line with the recovery in business activity over the same period but it is not in line with corporate profits, since this total during the first half-year will probably prove to have been at least 40 per cent higher than a year ago and possibly 50 per cent higher. Yet there are two good reasons for this apparent discrepancy. First, dividend changes tend to lag behind the immediate business movement whether it be up or down. Second, a great many companies are wisely conserving a portion of their profits to rebuild reserves that were pulled down in the depression years when dividend payments exceeded earnings. The practice of saving for a rainy day may not be as popular as it used to be but American business still believes in it. If it had not so believed the late depression would have been much worse.

CONSIDER THE POTATO

WHAT is the most speculative thing in the world? The stock market? Betting on the horses? Buying a ticket in the Irish Sweepstakes? Or farming? Before you give a cocksure answer consider the case of the lowly potato—a veritable travesty in national planning for agriculture. Not long ago the potato, one of the most widely used foods, was sunk deep in depression—a depression unwittingly created by the late A A A, for when that agency induced farmers to curtail cotton they turned to peanuts, and when it then tackled peanuts they turned to potatoes. The market was flooded.

Hence came the Potato Control Law establishing a quota for all farmers raising over five bushels for sale, imposing a punitive tax on any production above allotted quotas and establishing the penalty of $1,000 fine or a year in prison for any violation. That law was quietly repealed when A A A went out of business. Why bring it up now? Merely because it strikes us as something worth thinking about. You see, the recent drouth in the Southeastern states has boosted the price of potatoes to the highest level in ten years. It would be much too high for the good of this particular farm market if the originally planned scarcity had been carried out. Our planners have been lucky and the Supreme Court has saved them much grief.

COMMODITY TRADING IS REGULATED

THE amendment of the Grain Futures Act, regulating the commodity exchanges and its extension to include other principal agricultural products, notably cotton, was an inevitable product of the social theories of President Roosevelt, the general willingness to give the farmers almost any legislation which they think will be helpful to their interests and the natural sequence of the Stock Exchanges regulation act. The history of the operation of the Grain Futures Act indicates that it has been harmful rather than beneficial to the wheat raisers. But the public conscience revolts at the possibilities of evil which reside in speculative control of the necessaries of life, even though speculation may be credited with effecting more good than damage. Any private institution which has the potentialities of sacrificing the substantial interests of a great class of primary producers to the money making operations of persons whose function, however valuable, is not recognized as an essentially constructive one, can not hope to avoid public regulation. It is interesting to note, however, that the new law implicitly recognizes the legitimacy of speculation per se. It authorizes hedging as a means of preventing loss on actual sales and purchases of commodities. This is a form of commercial insurance which could not exist if there were not a large volume of speculation in commodities. The law contemplates the leaving of room enough for speculation to accommodate hedging, but it is probable that its net result, as it stands, will be to lower prices to the producer and raise them to the consumer.

THE MARKET PROSPECT

OUR most recent investment advice will be found in the discussion of the prospective trend of the market on page 267. The counsel embodied in this feature should be considered in connection with all investment suggestions, elsewhere in this issue. Monday, June 15, 1936.

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Stocks Are Cheaper Now Than in 1934

Recent Earnings Throw New Light on Current Values

By A. T. Miller

THE stock market, and commodity markets as well, are showing increased confidence. There can be little doubt that many individuals see encouragement in the recent course of domestic political events. Quite naturally, this is reflected in speculation.

For some weeks, however, the market by creeping and selective advance had rather strongly confirmed the view previously expressed here that the price level of late April could be regarded as the bottom of a purely intermediate reaction and that it would stand as the low for some time to come.

In our last analysis of the market it was further observed that the next significant technical test probably would not be the lows of late April but the bull market high established in the first week of April. We see no reason why the market within the next fortnight or so should not on the average approximate the old high or even move moderately above it. To this end a renewal of strong demand for the leading automobile stocks—dormant for several months—is now contributing support. This development is worth watching, since the motor group in June a year ago signalled a decisive phase of market advance.

Nevertheless, even though the odds favor further immediate rally, we would be inclined to go slow in short-swing trading operations because the margin between the present price level and the highest of the year—at least as regards the better grade equities—is relatively small and because we lack any basis for judgment as to whether at this stage the underlying bull movement can be extended significantly beyond the previous average top. July is certain to bring a considerable let-down in steel operations and in automobile production, with corresponding recession in the composite business indexes. If the market ignores that early prospect it would only be on the basis of great confidence in the autumn business prospect. Possibly such confidence is justified, but it would seem reasonable to hold that it must depend in some part on the development of clearer indications of the political trend. On this, also, there is little present basis for judgment. In short, the prudent policy in short-swing speculation would be to pare down

commitments on an extension of the present rally.

All of which, it must be emphasized, is a distinctly short-term point of view. For the purposes of the great majority of our readers—or for what *should* be their purposes—these articles concern themselves primarily with the underlying trend and with the longer intermediate swings of the market. The possibilities of profit are far greater and the risks of error far smaller in these longer movements. This has always been true, but it is especially so today in a market made so "thin" by S E C and Federal Reserve Board restrictions that all stocks are subject to abnormally violent short-swing fluctuations.

As regards longer range market operations we have repeatedly emphasized our belief that a combination of cheap money, Federal budgetary inflation and cyclical economic recovery points inevitably to ultimately higher stock prices. These factors are unchanged and no change is in sight, although it is quite possible that their bullish influence may temporarily be offset by seasonal business recession this summer and by uncertainty centering in the political campaign and the election.

It would not be surprising if before long we ran into an interval of considerable duration in which the market did very little of significance either in advance or decline. With such an interlude in mind, we feel that it is vital to seek a sane perspective as to the actual strength of the underlying position. Accordingly, let us put aside such abstractions as cheap money, budgetary inflation, cyclical recovery and other things that are either to some extent debatable or in any event difficult to measure in terms of simple arithmetic.

Instead, let us look to earnings, for they are the ultimate consideration on which one buys stocks. Assets, working capital, management, sales trends are appraised only as they relate to earnings. Because the course of the stock market is charted daily in the newspapers, while earnings of most companies are available only at quarterly intervals, it is easy to fall into the assumption that the market has gone ahead too fast. It matters not how much a stock has advanced from the bear market bottom if earnings are up in proportion.

What one pays, in short, is not so important as what one gets. To put it in elementary terms, if at one time you pay $1 for a bushel of potatoes, and if at another time you pay $2 for two bushels of potatoes, the price, obviously, has not advanced. The value in no stock is a fixed quantity. It moves up or down with earnings.

Believe it or not, if you appraise the market on this basis you will find — probably to your surprise — that on the average stocks are cheaper now than they were before the great bull market of the past sixteen months got started. To prove the point we have worked out comparative price-earnings ratios on a group of fifty industrial stocks. Both durable goods and consumption goods stocks are included. In composite they constitute a representative cross section of the industrial list. In the table accompanying this article you will find two columns of figures. The first is the ratio of the closing price of December 31, 1934, to the earnings per share reported for the year 1934. The second is the ratio of closing prices on a recent day to the per share earnings shown for 1935.

Earning Power for Sale Cheaper Than Before the 1935-1936 Bull Market Started

	Ratio of Dec. 31, 1934 Price to 1934 Earnings	Ratio of Recent Price to 1935 Earnings
American Rolling Mill	47.2	11.5
American Smelting	23.7	15.1
Anaconda Copper	52.3	25.5
Archer-Daniels-Midland	10	9
Armstrong Cork	14.7	18
Atlas Powder	16	20
Beech-Nut Packing	16.1	17.3
Borden	23.3	25.4
Borg-Warner	10.2	12
Briggs Manufacturing	10.6	9.6
Burroughs Adding Machine	23.4	25.4
Caterpillar Tractor	19.4	23.4
Chrysler	19	11.6
Continental Oil	18.5	19.1
Crown Cork & Seal	10.6	13.4
Devoe & Raynolds "A"	21.4	19
E. I. du Pont	26.3	28.3
Eastman Kodak	17.8	24
Fairbanks Morse	66	18.6
Firestone Tire	24	18.3
General Electric	37.7	37.1
General Motors	17.1	16.5
Glidden	16.3	15.7
Goodrich	27.1	16.1
Harbison Walker	23	28.8
Hazel-Atlas Glass	16.5	15.5
Hercules Powder	18.9	22
Ingersoll Rand	23.2	32.2
Johns-Manville	180	42.4
Kennecott Copper	32.5	29.5
Loew's, Inc.	7.6	10.4
Mesta Machine	17.6	15.7
Montgomery Ward	17.1	15.8
National Steel	17.6	11.2
National Cash Register	19.8	24.6
Procter & Gamble	20.7	18.8
Raybestos-Manhattan	18.1	15.2
Schenley Distillers	4.2	5.4
Sears, Roebuck	12.6	15
Sherwin-Williams	16.2	19.7
Standard Oil of Indiana	20.4	16.6
Standard Oil of California	23	25.8
Underwood-Elliott-Fisher	15.8	19.4
Union Carbide & Carbon	20.6	26.7
United Carbon	13.8	15.9
United States Freight	13.8	10.6
United States Gypsum	36.2	35.2
Western Union	15.5	15.3
Woolworth	16.3	15.5
Wrigley	19	17
Average of 50 stocks	23.8	19.1

Averaging these ratios we find that this group of stocks on December 31, 1934, sold at 23.8 times 1934 earnings per share. In the recent market they sold at an average of only 19.1 times the 1935 earnings per share. If the market is "high" after sixteen months of advance, as so many conclusion-jumpers have asserted in recent months, it was even higher before the advance started! It was discounting the future more generously at the close of 1934 than it is doing today.

Moreover, aggregate corporate earnings in the first quarter of this year were more than 40 per cent larger than in the first quarter of 1935. The second quarter gain has been still larger, probably running to at least 50 per cent above a year ago and possibly to 60 per cent. What the showing will be during the second half of the year is, of course, wholly conjectural.

Assume for the moment that the profit gain for the full year will be 40 per cent. In that case the ratio of 19.1 times 1935 earnings for these fifty stocks is translated into a ratio of 13.6 times 1936 earnings per share. If the year's profit gain is 30 per cent, our ratio becomes 14.6 times 1936 earnings per share. If earnings are up only 20 per cent—and it is difficult to see how they could fail to be larger—the ratio would be 15.9 times 1936 earnings.

On any of the above assumptions as to 1936 earnings, the market is not on the average at a high level in relation to per share net but at what can only be considered a low level when due weight is given to the prevailing level of short-term interest rates, to the surplus of existing invest-

ment funds, to the background monetary uncertainty inherent in the unbalanced Federal budget, to the continuing inflation of bank deposits and to the fact that economic recovery—as measured by per capita production and national income—still has a considerable distance to go.

Necessarily in any average of fifty stocks the variations in performance of the individual issues are very large, but so it is in any reasonably broad market average and it is only in terms of an average that the general market trend can be discussed. The compilation was made virtually at random, without effort to make out the best possible case. Selectivity entered the matter only in that industrials exclusively were chosen, in confining the list to issues sufficiently well known to be fairly representative of the prevailing trends and, of course, in listing only issues which had some earning power in 1934, for otherwise no price-earnings ratio exists.

As is not surprising, stocks appraised by the market as having the brightest long-term prospect show not only the highest price-earnings ratios but some advance in price-earnings ratios since December 31, 1934. For example, du Pont at the close of 1934 was priced at 26.3 times 1934 earnings per share. Its recent price was 28.3 times the 1935 earnings per share. Hence the market appraisal of this issue has been raised by only 7.6 per cent in one of the broadest and most protracted bull markets we have ever had.

The Trend of du Pont

Surely that is not excess of hope when it be recalled that at the close of 1934 business was enmeshed in the N R A. New Deal experimentation with the economic system had received no effective check, recovery had up to that time consisted chiefly of consumption goods "boomlets" and business confidence in the longer outlook was at low ebb. That advance of 7.6 per cent in du Pont's price-earnings ratio is the realistic measure of its appreciation since the close of 1934, rather than the advance of approximately 51 per cent in the price of the stock.

Moreover, du Pont's earnings in the first quarter of this year were approximately 42 per cent larger than in the first quarter of 1935 and the second quarter comparison will be still more favorable, whereas the 1935 earnings exceeded those of 1934 by only 37 per cent. Hence the earnings line has risen faster this year than in 1935. Assuming this year's profit gain should be 30 per cent, or well under that of the first half year, the recent price is approximately 21.9 times earnings or about as low as this issue has sold at any time over the past three years.

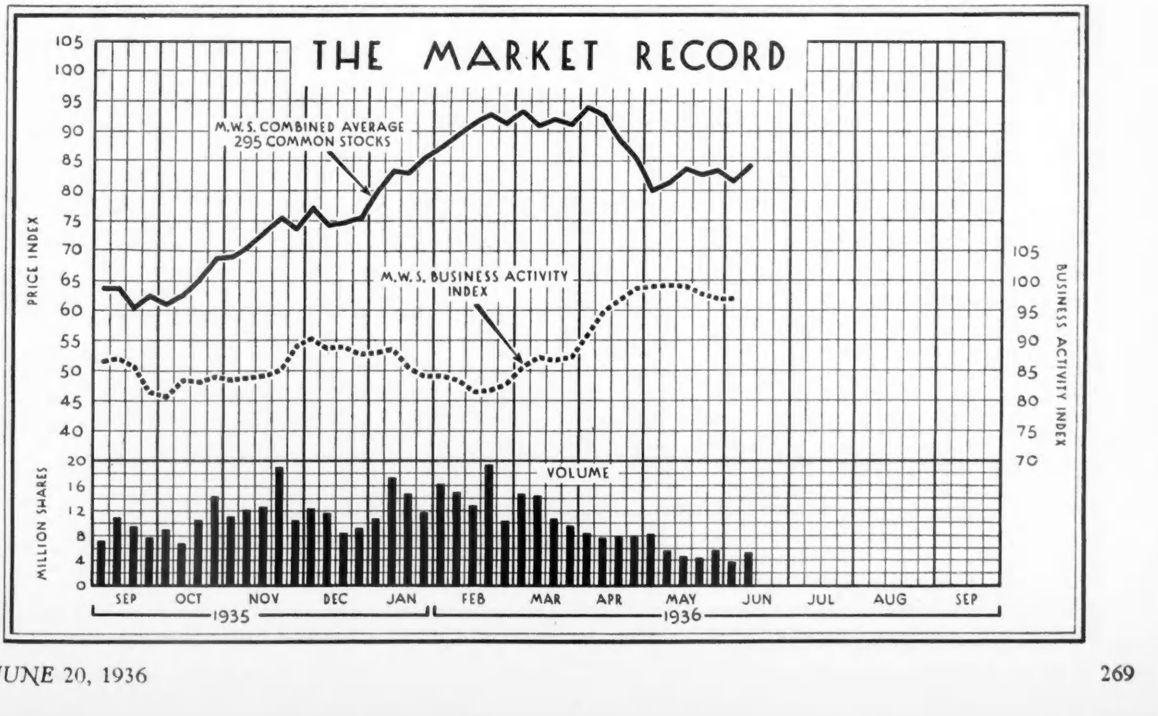
How High Is General Electric?

To cite another example, General Electric has advanced by about 66 per cent in market price since the close of 1934, but on December 31, 1934, it was quoted at 37.7 times the 1934 earnings per share, whereas the recent price is 37.1 times its 1935 earnings per share. If this issue is high in relation to earnings, that can not be blamed on any excess of the bull market of the past sixteen months, for the price-earnings ratio now is a trifle lower than it was before this bull market started. This company's earnings for the first quarter were approximately 31 per cent larger than for the first quarter of 1935 and should prove moderately higher in the second quarter than in the first.

For a somewhat more extreme example consider Fairbanks Morse, a company which made fast progress in 1935 after lagging behind in the initial stages of recovery for reasons inherent in the character of its products. This stock has considerably more than doubled in market price since the end of 1934, rising from 19 to a recent price of 47. But eighteen months ago it was selling at 66 times the 1934 earnings per share and today it is selling at but 18.6 times its 1935 earnings per share.

In rather strange contrast for two companies in the same line of business, both in strong financial position and equally well managed, Sears, Roebuck's price-earnings ratio over this period since the close of 1934 has advanced from 12.6 times 1934 earnings, to 15 times 1935 earnings, while that of Montgomery Ward has declined from 17.1 at the end of 1934 to 15.8 at present.

The stocks in the table accompanying this article are not in any sense to be taken as current recommendations. Its purpose is merely to dissipate the illusion that speculators went crazy in the 1935-1936 bull market.



Happening in Washington

By E. K. T.

Washington Sees—

Business better and better, despite the political campaign.

Rivers of public money offsetting apprehension of Roosevelt success—.

Cleveland convention not changing odds in favor of Roosevelt.

Forty-four million trade prize at stake in Australian tariff negotiations.

Hull trade agreement policy imperilled by return of Republicans to self-containment.

No change in margin policy by Federal Reserve —no change in reserve requirements.

Administration favoring suppression of speculative activity during campaign.

Eccles as grand vizier of Sultan Roosevelt.

Business not greatly crimped by regulative legislation of recent session of Congress.

Revenue law not repressive of business this year.

Business can't lose during political battle. Administration will continue to prime the pump to the limit. Works Progress Administration has $1,425,000,000 of new money to spend and more than a billion carry-over.

First deficiency bill carries about $1,000,000,000 in addition to relief funds. Other appropriations and bonus payments total about $5,700,000,000.

Here's a total of hot money of around $9,000,000,000 available for spending during the fiscal year 1937, besides the $300,000,000 of the P W A revolving fund made available for outright grants, making it possible for P W A to cause the disbursement of $300,000,000 to $500,000,000.

Altogether 1937 looks like the easiest outgoing money year the Treasury has experienced since it spouted cash during the World War.

Treasury plans to charge bonus output to 1936 expenditures, so as to make a showing that the enormous appropriations are largely due to the bonus (passed over the President's veto) and the effect of the A A A decision on income and appropriations. But accounting strategy does not affect the money flood.

If the outlook should continue to be unfavorable to the Republicans the cash will be there to set a profitable present against apprehension of a disturbed New Deal future. If the G.O.P. prospects brighten, the cash will still be flowing in a lovely torrent and the psychology of capital will seethe with optimism.

Campaign scares: Expect a quiet summer—no political storms. Republicans will begin their assault in force about September 15. Look to them for the fireworks and "sensational revelations." Latter will include a series of disclosures of the President's economic infantilism. Another series will relate the incredible follies and abysmal errors of relief and recovery agencies.

Thorny path of British trade agreement is made thornier still by the new Australian licensing system. Aimed chiefly at the United States because we buy only 8.5 millions from Australia and sell her 43 millions. Australia is building up home industries—and U. S. is out of luck, having already experienced disastrous results from British preference system. France and Japan, as large buyers, will get the preference over the U. S. wherever competition exists. Tough on automobiles ($11,000,000), petroleum products ($9,500,000), leaf tobacco ($4,200,000,000) and a host of miscellaneous products. State Department correspondence and conversations with Australians are tense and tightly suppressed.

Predict that we shall soon encounter a collision with the whole British Empire trade control system.

Japanese trade agreement preliminaries were scotched when President upped tariff on Japanese cotton goods. Cynically explained that the pressure of the Japanese ambassador for an agreement was one reason why the President shot the works.

Japs plot for reversal of trade balance to their favor, "as it was and should be."

Republican platform leans toward nationalism. Bilateral bartering treaties are favored as against the Hull policy, now in effect, of generalizing each trade agreement (14 already) through the most-favored nation clause. Means a reversal of foreign trade policy which seeks to benefit the U. S. by contribution to international betterment. Distasteful to great exporting interests. Generally welcomed by non-exporting industries.

Favor for the Peek idea of two-prices for staple farm products—subsidies for exported goods and home market reserved for American farms—contributes to nationalistic tendency and clouds international trade outlook.

Tax bill doldrums during the Republican convention gave Administration forces chance to tighten up the lines for a concession to the President on undistributed profits. He got the principle of his idea of a graduated tax, as against the Senate plan of a flat tax. New tax scheme will not actually affect business policy restrictively this

year. May result in plowing back profits and thus stimulate heavy goods industries.

Offsetting socialistic taxation innovation, Administration spokesmen make the point that the President has achieved new taxes. Without his insistence Congress would have refrained from new general taxation and left the unpopular job of bill-collecting to the next Congress.

Congress may have a chance, when the accountants are through their figuring on appropriations, to claim that it pared the budget.

The trick in the claim is that various amounts have been reappropriated. Another factor is R F C, which puts up $50,000,000 for rural electrification and another $50,000,000 for flood rehabilitation loans, etc. Then, too, agriculture automatically gets 30 per cent of customs receipts.

Another trick is deliberate discounting of future deficiency bills—underappropriate now and let the next Congress do the deficiency financing. "After us the deluge."

Paying the piper:—Note that the deficiency bill carries $500,000,000 for the Social Security Act reserves.

Decision of the Supreme Court throwing out the New York law establishing fixed minimum wages for women gave the President a break in his steady contention for more centralization of legislative authority. (Twelve states have such laws.) It has also helped him in his criticism of the powers of the Supreme Court—but you may be sure that he will have little to say in criticism of the Court or the Constitution during the campaign. He is stubborn and self-opinionated, but when he sees the light he can be relied upon to act sagaciously from the political point of view.

There will be no issue of constitutional amendment. President prefers the evolution that will come from mortality in the Supreme Court.

Credit is declared by Eccles to be loosening up, and Administration spokesmen say it is the long-last result of lavish Federal expenditures.

Federal Reserve will do nothing, however, to soften margin requirements of stock market brokers. Feeling is that "legitimate" business has been shot full of artificial stimuli from legislative sources and needs no help from a buoyant stock market. On the other hand, nothing will be done during the campaign to increase reserve requirements.

Mr. Morgenthau is no longer ex-officio a member of the Reserve Board, but the President who is the real boss of both Morgenthau and the Board will stand by the former, who must always keep an eye on easy financing through the banks.

Next Congress, if Democrats win, will tackle the old question of tax exempts with a club—provided prosperity arrives full-fledged. That is a logical sequence of soak-the-rich and wealth distribution objectives.

Labor is seething,—mad at courts, business and Congress—but Administration will exert itself to put off strike crises until after election—and will be generally successful. "Don't rock the boat, boys; plenty of time to raise hell if we are beaten; everything is yours if we win."

Republicans are tipping employers to be indulgent in wage and hour disputes.

Recess of Congress on account of Speaker Byrns' death and later for the Republican convention has made the forward view of the last hours of Congress exceedingly obscure. As this is written it is likely that Congress will stay in session until the Democratic convention, and may reconvene thereafter. If it does it will pass a flock of bills now in conference or near to it.

Patman-Robinson so-called anti-chain bill and the lobby regulation bill got through conference before the recess to June 14. Former is a tightening up of the Clayton Anti-Trust Act, which was eventually inevitable, and is an invitation to business rather than a shackle. Latter is harmless, but may be ditched by the courts as violation of the right of petition.

Chester Davis, as member of the Federal Reserve Board, will eclipse Wallace as President's farm authority. Davis is always for what the President favors. Lewis has eclipsed Green as labor advisor.

Chairman Eccles stands high with President, who regards him as best prophet of New Deal recovery gospel. The man from Salt Lake City is a firm believer in potency of Government expenditures and publicly-controlled credit in dealing with industrial crises. Does not believe in old

Wide World Photo

Chester Davis (left), erstwhile A A A Administrator, and new appointee of the Federal Reserve Board in conference with his former chief, Secretary Wallace

theory of letting deflation run its natural course. Claims all credit for the Government for the present stage of recovery, which he says is due to *business confidence (sic) inspired by government aid* in the form of credit and of increased cash expenditures, and public financing by borrowing instead of by increased taxation.

Morgenthau is the Roosevelt Man Friday. He stands without tying, does what he is told to do—and no back talk. Eccles talks back, but the President can take it because it is indispensable for an impulsive actor to have a thinker who can tell him what he might have thought before he acted. Eccles is the mirror in which the President sees himself reflected as a rational economist.

All cabinet members have ceased to influence the

(Please turn to page 324)

Wertz Photo, from Nesmith.

Thirty-Five Years Without A Strike

A Record in the Steel Industry That Should Interest All Employers and All Labor

By CHARLES R. HOOK

President, The American Rolling Mill Co.

THE editor of this magazine has asked me, "How is it that The American Rolling Mill Co. has continued in the steel business for 35 years without once having its production interrupted by labor difficulties?" It is with the greatest humility that I approach the task of writing this article. What has been accomplished has been the net result of the combined efforts of so many people, that my position can only be that of narrator of the broader phases as I see them.

The friendly relations which have always existed in all of our plants are merely evidence of the way of life we—our management and our employees—have chosen. We have had confidence in one another. We have faith in each other. We have recognized that there was no such thing as divergent interests, that the interests of both could best be served where confidence and friendship exist. The spirit of friendship and co-operation among Armco men and women has been the powerful, unseen force behind a succession of material accomplishments requiring human effort far greater than that which can normally be expected. This, in our opinion, is the result of our efforts to provide *understanding*.

Our company began operations more than 35 years ago. In the beginning we employed less than 300 men. Even in those days there were large steel companies well established in the markets of the world. George M. Verity, the company's founder and still chairman of the board, realized the futility of attempting to compete with these larger companies. Steel in those days was strictly a commodity product. Mr. Verity felt that in the development of special grades of

iron and steel sheets for special purposes lay the greatest opportunity for success. He realized, too, that for a young company to attempt an expensive program of product development was suicidal unless the men launched upon the great adventure with willing hearts. They responded heartily, and they have continued to respond, because they were made to understand our mutual problems.

At that time Mr. Verity had certain theories in mind regarding the relations between a company and its men. As time went on, and as opportunities arose, those theories were tested and became established policies. The definite and specific purpose of those policies was to bring about a condition of confidence and mutual sympathy based upon a foundation of understanding. To those of us who have been with Armco since its earliest days, it is apparent that whatever has been accomplished has been the result of this determined effort to build understanding of the aims, ideals, and problems of the business in the minds of every man on the payroll.

A Platform Promise Carried Out

For this reason, our company policies were *reduced to writing* seventeen years ago and at that time were formally approved by the board of directors and distributed to every member of the organization. Thus they serve as the company's constitution of intention, decision and action, providing everyone in any supervisory capacity whatever with a bench-mark from which to gauge his actions. More than that, they furnish those not in supervisory positions standards of expected treatment. Any American Rolling Mill man who feels that his treatment does not "square" with Armco policies has always had the privilege of appealing his case to the president of the company.

Generally speaking, we feel that the first plank in a platform of satisfactory employee-employer relationship is a wage schedule which compensates the worker fairly and generously within the continuing ability of the employer to pay. After more than three years of research, during which time we studied, analyzed and classified thousands of jobs in every plant according to the skill and responsibility required, we announced our "fair wage" plan. This plan establishes equitable base rates in all plants for men of like skill and responsibility. It takes into consideration such factors as rates paid by competitors, the cost of living in the community in which each particular plant is located, and so on.

Due to a policy of promotion from within, the organization has always been a stable one, so that it has been possible to have Armco men trained in Armco methods and policies.

Establishing Good Working Conditions

The second plank contemplates the establishment and maintenance of safe and satisfactory working conditions. None of us can do our best work unless we are provided with good tools and with safe and comfortable working conditions. These things are essential to industrial efficiency and progress.

The third plank has to do with confidence as it is affected by factors other than the two planks I have mentioned. As I have intimated, the great need today in every phase of our social, economic and political life is *understanding*. It has always been so, but today the need is even greater. Today we hear demagogues and sensationalists screaming false economic philosophy and hurling all sorts of accusations at industry. Unless management takes the necessary time and considers it a part of the day's work to enlighten the men on the job, and all others who are in any way dependent upon industry, with respect to the fundamental economics, their mutual responsibilities, and the problems of the business, misunderstanding is bound to occur and confusion, which is costly to employees, company, stockholders, and the community is bound to exist.

The enlightenment of the man on the job to bring about better understanding is, in my opinion, the only sound means of maintaining lasting friendship between men and management.

In the year 1904, I was given the job of superintendent of our rolling mill and finishing departments. The men were constantly bringing their supposed grievances to me as their department head. Because of the minor character of their troubles, I came to believe that it was a lack of the understanding of the simple problems of business that was the root of 80 per cent of their fancied troubles. Having been a workman and later a roll turner in other plants, I also knew that they had certain facts regarding the business which were not in possession of the management, and I knew the management had certain information about the business the men did not have. It seemed to me that if we could arrange some simple medium for the free and easy exchange of information, understanding would result and the vast majority of our problems would disappear.

Finally, I asked the men to elect a committee to meet with me every Saturday night. As a result of these regular conferences the management was kept informed with respect to what was on the worker's mind, and the worker, as a result of careful, simple and patient explanation, became informed with respect to the manner in which his individual work affected the success of the company and how the success of the company, in turn, affected his pay envelope and his continuous employment. This was our first experience with employee representation.

As the company grew and expanded, the program of employee representation likewise grew and expanded. From the time of the election of the first committee in 1904 until the present moment the conduct of the elections has been in the hands of the employees, and all elections have been conducted by secret ballot.

Employee Representation

After more than 30 years' experience with employee representation I can say with the greatest confidence that the vast majority of American workmen are fair minded. They want to do the right thing, and they will if they understand the various elements surrounding each situation affecting their personal well-being. During Armco's first fifteen years, we developed many new grades of iron and steel, such as high magnetic steels, commercially pure iron, enameling iron, special auto body sheets, and the like. During the second fifteen years, we not only continued a program of product development, but we pioneered in new manufacturing processes, such as the development of the continuous rolling mill. All of this development work had to be carried on without disturbing service to our growing clientele. During these busy years, with all the problems which invariably accompany a developmental project, there have been no instances which I recall where an Armco man failed to do his part. On the other hand, there have been countless instances where through unusual effort Armco men have accomplished the seemingly impossible.

The building of understanding should extend beyond the gates of the plants. In every community there is a large group of business and professional people whose business is dependent upon industry. Several years ago, we began to write a series of articles on subjects of current economic importance for our employees' newspaper. These articles

(*Please turn to page* 321)

Outlook for Leading Industries in the Third Quarter

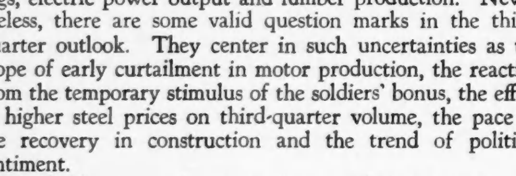
Which Will Remain Static—Which Will Go Forward?

By JOHN D. C. WELDON

BUSINESS activity for the first half of the year probably will prove to have averaged fully 15 per cent larger than for the first half of 1935 and aggregate corporate profits should be at least 50 per cent higher than for the same period last year. First-quarter profits showed a gain of around 40 per cent. Second-quarter volume and trend have been more favorable than in the first quarter. Both in respect to business volume and profits this six-months period is the most satisfactory in six years.

We approach the end of the second quarter with little or no tangible evidence of a coming recession. A mild tapering off in automobile production has been more than offset by gains in other directions, notably in railroad car loadings, electric power output and lumber production. Nevertheless, there are some valid question marks in the third-quarter outlook. They center in such uncertainties as the scope of early curtailment in motor production, the reaction from the temporary stimulus of the soldiers' bonus, the effect of higher steel prices on third-quarter volume, the pace of the recovery in construction and the trend of political sentiment.

The half-year turning point is a good time to take our bearings and sight our course. What is the outlook? For convenience we will consider the major industries individually.



THE MOTOR INDUSTRY has led the way in recovery and the fluctuations in its output exert a major influence on the composite business index. Although retail sales have held up at a surprisingly high level, there is no question but that factory production, now in gradual decline, will drop sharply in July. The only question is whether that summer decline will be greater or less than is seasonally normal and this question is complicated by the fact that seasonal habits in the industry have been thrown askew by November introduction of new models. For the whole production year, however, sales to consumers must balance factory output, yet thus far in every month since last November production has exceeded retail sales.

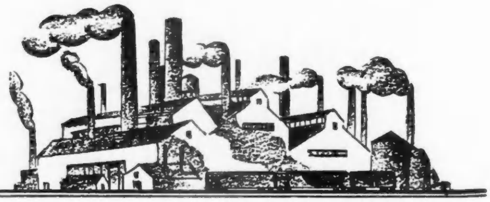
June retail sales will narrow the gap but hardly close it and since retail sales are tapering off in seasonal fashion, an economic balance can only be restored by a relatively sharp drop in production very soon. The used car inventories in some areas are top-heavy and this is additional reason for a pause in the pace of manufacturing. It appears probable that the seasonal factory shut-downs incident to change-over in models will begin earlier and last longer this year than last. Quite apart from correction in the industry's supply-demand relationships, there is the fact that mechanical and style changes in the 1937 cars will be considerably more extensive than was the case a year ago. Accordingly shut-downs for change-over probably will last from a month to six weeks and some may begin as early as the middle of July.

It is scarcely probable that production of the new models will assume much momentum before October or November. Over the next few weeks the veterans' bonus money should help sales of both new and used cars, but to some extent this stimulus has been anticipated at least in initial effect and it is possible that the secondary stimulus—that is, the utilization of bonus money by those who have received it from the veterans—may have greater third-quarter influence than actual veteran spending. In no event is this factor likely to weigh heavily in motor production schedules, since present stocks are ample. While the motor industry will contribute little or nothing to fresh industrial gains in the third quarter, the fourth quarter rebound will be a vigorous one since the basic position is strongly supported by continued gradual expansion in public purchasing power and the inclination to indulge it.

THE STEEL INDUSTRY'S third quarter outlook is somewhat obscured by a new price factor, higher quotations on a number of major products having been announced to take effect July 1. Normally the effect of such a move would be to bring in a rush of forward buying prior to the effective date of the higher prices, followed by an abrupt decline in production schedules in July. As this is written there is still time for such buying to come in but there is considerable evidence to suggest that the sequel may not at all be the same as that following the abortive price jump in 1934. With respect to the broadened base of actual consuming demand, the industry's position is far stronger now than it was in either 1934 or 1935, particularly in the gradual recovery of demand

for railway and construction steel, in the persistence of miscellaneous demand and in record high tin plate production.

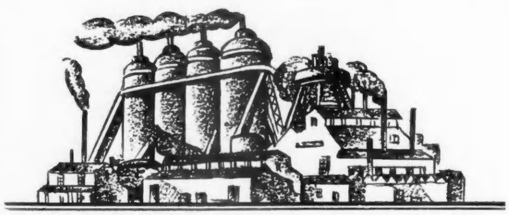
Moreover the motor industry—largest single buyer of steel—is not in a position to make heavy forward commitments, since its plans for the 1937 models are not yet fully formulated. Again, the leading motor makers have reported very large profits, a fact that would tend to weaken their opposition to moderately higher steel prices. On the whole, therefore, such third quarter recession in steel output as is traceable directly to the price factor will probably not be as severe as in previous instances of price



changes. This depends partly, however, upon the amount of forward buying from customers apart from the motor industry that may develop between this writing and July 1. To whatever extent this should go beyond normal consuming requirements, it will to that extent deepen the normal seasonal recession in steel activity.

As was the case last year and in 1934, the third quarter will see steel output reach the lowest level of the year, but it appears certain that this low point will be higher than it was a year ago. Against the effect of marked falling off in motor production is the fact that railroad and structural steel orders will continue much larger than a year ago. Nor is there any likelihood of a significant slump in miscellaneous consuming channels or in tin plate which, combined, used even more steel than the motor industry.

COPPER statistically continues to improve in that stocks, both domestic and for the world, are gradually declining while consumption is increasing. Of these two supply-demand factors by far the most important is increasing consumption. Domestic consumption thus far in June is estimated to be at least 30 per cent higher than at the close of 1935. Yet so far as actual sales of raw copper are concerned, the trend over a period of time is more significant than the changes from month to month. Perhaps more than in any other major industry, spurts and relapses in copper buying are tied up with price factors. In April, for example, in anticipation of a moderate

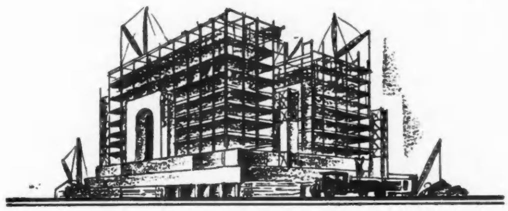


price boost, 150,000 tons of copper were reported sold, whereas in May only 16,000 tons were sold. It need hardly be said that forecasting third quarter demand is virtually impossible, for whereas consumption has been steadily eating into the huge stocks purchased by fabricators in the spring, another buying spurt equal to that of April is not in sight.

Demand for copper from the motor industry will necessarily be much smaller in the third quarter than at present. On the other hand, construction will continue to take substantially more of the metal than it did a year ago. The utilities likewise will take moderately more copper than in 1935, due to record high consumption of electricity and despite the serious political uncertainties that hang over their heads. The industry can also count on some new business from the Government's rural electrification program, now getting under way.

Lead stocks are still heavy, but the upward trend of demand is expected to continue. The third quarter will see relapse in the demand for lead used in batteries, but sheet and pipe lead and lead pigments for paints will experience demand well above a year ago. With consumption the highest in six years, the outlook for zinc remains favorable. Galvanizing consumption is the largest single market for zinc and this, together with zinc pigments, will hold up well through the third quarter.

CONSTRUCTION'S third quarter prospects are good although the rate of gain, according to present evidence, will probably be below optimistic expectations entertained at the start of the year. The most recent statistics show residential building approximately 59 per cent higher than a year ago. This represents a narrowing of the rate of gain through the spring months and suggests that earlier forecasts of a 1936 volume of residential construction double that of 1935 may not be realized. Uncertainty centering in the coming national election should have little relation to this class of building, with the exception perhaps of more expensive homes which make up a small part of the total volume. In the third quarter of last year, however, rapid improvement was in progress, exaggerating comparisons



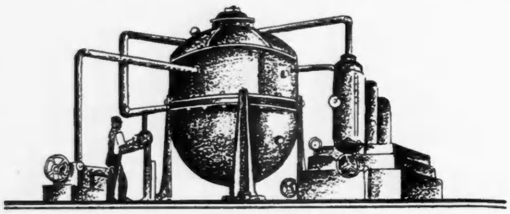
with the acutely depressed figures of 1934. Third quarter comparisons this year will be against a substantially higher base and it is open to question whether the gain will be more than 50 per cent.

Commercial building likewise is little influenced by political considerations and is expected to hold its present improved position in the third quarter. Engineering construction, especially as regards industrial building, has shown some recent tendency to flatten out at a level only some 15 per cent higher than a year ago. This class of building is, of course, definitely affected by the uncertainties in the political outlook and there will most likely be a tendency in coming months to defer new projects of industrial building until after the election in November.

Nevertheless the picture is disappointing only in relation to first of the year estimates that proved too high. The third-quarter volume gain over a year ago will be larger than that in any other major field of economic activity and will be a vital supporting element in the general business picture. The underlying factors making for cyclical recovery in construction remain favorable. We have only started to make up the vast accumulated depression shortage in housing brought about on the one hand by growth of our population and on the other hand by elimination of old homes by fires and obsolescence. Meanwhile, gradual expansion in public purchasing power, the availability of abundant mortgage credit and the continued slow recovery in real estate values and house rentals all combine to support

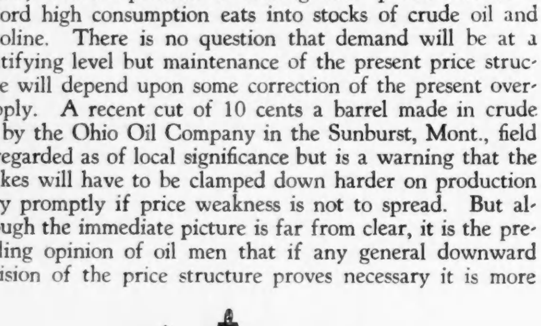
the underlying revival. No significant break in the upward trend is in sight for the third quarter.

CHEMICALS are so universally used that they are largely immune to any seasonal factor. The leading companies make hundreds of products. Seasonal recession in demand for some, reflecting, for instance, a lull in manufacture of automobiles or steel, will be offset by seasonal expansion in demand for others such as chemicals used in paint, textiles and the petroleum industry. Reflecting both



general recovery and development of new chemicals or chemical processes, volume in many chemical lines is at record highs. Synthetic resin production has passed the level of 100,000,000 pounds a year for the first time. Especially large gains are being made in such chemicals as synthetic mechanol, acetic anhydride, acetic acid and acetone. These are used in the motor and petroleum industries, rayon and in solvents. Output of dyes is estimated running only some 5 per cent under the 1929 peak. As a whole, the business volume in the chemical industry during the second quarter substantially topped the first-quarter total. It is likely that third-quarter volume and profits will be highly satisfactory. Any recession will be moderate, depending in important measure upon the duration and depth of seasonal decline in the motor and steel industries.

THE OIL INDUSTRY is confronted in the months ahead, with the problem of holding down production while record high consumption eats into stocks of crude oil and gasoline. There is no question that demand will be at a gratifying level but maintenance of the present price structure will depend upon some correction of the present oversupply. A recent cut of 10 cents a barrel made in crude oil by the Ohio Oil Company in the Sunburst, Mont., field is regarded as of local significance but is a warning that the brakes will have to be clamped down harder on production very promptly if price weakness is not to spread. But although the immediate picture is far from clear, it is the prevailing opinion of oil men that if any general downward revision of the price structure proves necessary it is more

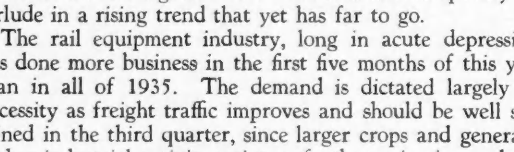


likely to come next autumn, as the season of declining gasoline consumption begins, than at the present time.

Meanwhile favorable developments are not entirely lacking. There has been a modest scaling down of recent excessive production of crude, due both to voluntary action of larger producers and the tightening of proration allotments in several states. At the same time inventories of gasoline are being drawn down considerably and this reduction is expected to continue. Refining operations likewise have been slightly curtailed. Generally speaking, stocks of both crude and gasoline are believed in "strong hands." Recently daily average production of crude has run slightly in excess of 3,000,000 barrels. If it can be pulled down to around 2,850,000 barrels daily within the next few weeks concern over possible price reduction will be greatly eased, if not eliminated. Leading oil men believe such curtailment will be achieved.

IN THE ELECTRICAL EQUIPMENT industry the third-quarter prospect is brightest in consumer lines. Thus far in the year sales of such products as refrigerators, washing machines, vacuum cleaners and oil burners have been at record highs. Of these only heating equipment will have the seasonal factor against it and even here increased residential building will support third-quarter demand well above a year ago. In contrast, generating and transmitting equipment will face even slacker demand than now is present, since the utilities have every reason to hold down capital expenditures as far as possible until the political outlook is clearer. On the whole the industry's total volume undoubtedly will fall under that of the second quarter but such recession can be regarded as a moderate and temporary interlude in a rising trend that yet has far to go.

The rail equipment industry, long in acute depression, has done more business in the first five months of this year than in all of 1935. The demand is dictated largely by necessity as freight traffic improves and should be well sustained in the third quarter, since larger crops and generally higher industrial activity point to further gains in car load-



ings. The prospect of this industry is discussed in detail in a special article on following pages.

Farm equipment sales this year are expected to total at least $375,000,000, topping last year's figure by approximately 25 per cent and coming within 15 per cent of average sales in the 1926-1930 period. The spring months have seen the best business since 1930. Third-quarter business will be seasonally lower, although late August and September will produce an upturn as crop yields are determined. Meanwhile demand for light farm tractors—the division which has shown the largest gains over the past year—is expected to be well maintained.

The third-quarter prospect for machinery and machine tools is excellent, especially as regards demand from industries making consumers' goods or consumers' durable goods. For example, the modernization and expansion of equipment and facilities continuing in such fields as automobiles, petroleum, chemicals and tin and glass containers is wholly unaffected by election uncertainties or other politicial considerations. All of the above industries will make large equipment expenditures this year, notably the oil and motor industries, and in such expenditures there is no basis for seasonal letdown in the third quarter. The motor industry in the third quarter will complete re-tooling for manufacture of the 1937 cars to be introduced again early in November. In the aggregate, demand for machinery will contribute largely to supporting the composite business index in the third quarter.

Nor is there likelihood of any material slackening in the recovery of the office equipment industry during the third

(*Please turn to page* 317)

Is the invasion of cheap Japanese merchandise a serious threat to our industries?

Economic War With Japan

By Theodore M. Knappen

IN a mortal combat between nations it would be gratifying to the soldiers of both sides if they were to observe that the longer the war lasted the fewer were the casualties. On the face of the statistics it appears that the fiercer and fiercer becomes the "economic war" between the United States and Japan, the greater and greater becomes the one-way and total trade between the two countries. On the war analogy it would appear, therefore, that the more deadly the hostile measures taken between these countries the greater the resulting vitality of their mutual trade.

This self-contradictory sort of a war is now being waged at a terrific rate, and yet, as it has continued, Japan has become, after Canada and the United Kingdom, the third best customer of the United States. At the same time the devastating United States, handy ogre for the mothers of Japan to frighten their children into nocturnal quietude, remains far-and-away the best national customer the Rising Sun Empire has in all the world.

This sort of thing doesn't make sense, but sense or nonsense, both countries affect to regard their mutual efforts to increase each other's abundance of goods as a thing malign, provocative of international hatred and perhaps prophetic of a war of the sword.

Again, in the slick business of keeping the good customer from being the welcome vendor, which seems to be one of the yardsticks by which international commercial wars' success is appraised, the more Americans and Japanese "hate" each other's goods, the more they take of them.

Seems like a crazy world of make-believe, doesn't it? But it persists and both Japan and the United States vainly plot and plan to sell more and buy less from each other, both countries seeming to consider that a lily-white one-way trade—exports only—would be the *summum bonum* of commercial felicity.

This bloodless plotting is becoming involved with the nets which Japan is spreading for the entrapment of China and the political as well as economic domination of the Far East; and the scene is staged day by day for a hypothetical war to the death between the two countries, which would be even more absurd in logic than the "deadly" trade war in which each country is pitching bombs of solid wealth to the other.

A Contrast in Trade Growth

	U. S. Exports (Thousands Dollars)		Japan Exports (Thousands Yen)	
	1929	1934	1929	1934
Europe	2,135,000	938,326	147,248	227,772
Asia	642,010	400,078	915,232	1,169,503
Africa	130,389	76,671	60,334	182,396
North America	915,024	292,022	941,180	407,614
Central America	426,540	175,440	6,544	43,295
South America	536,740	160,683	23,025	61,457
Oceania	191,506	56,017	54,842	79,885
All countries	5,157,083	2,100,137	2,148,618	2,171,924
To Japan alone	258,458	209,926	....	....
To U. S. alone	....	....	914,084	398,928

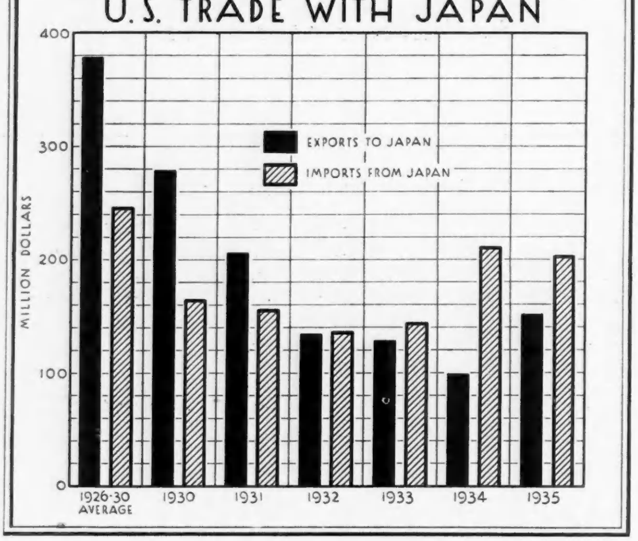
Notes: Average exchange rate of yen in dollars; 1929, 46.10; 1934, 29.72. Unit value of raw silk was $5.09 in 1929, and $1.32 in 1934; while that of cotton was 20 cents and 12 cents, respectively.

There is, however, ordinary horse-trading sense in Japan's efforts to annex China politically and commercially. The means to the end may be bad and perhaps in the long run unsuccessful but the smart idea is there that Japan must exploit China, going and coming. Although the same double-barrelled idea when applied to the United States is all wrong, it is realistically all right when applied to neighboring China.

This is the Japanese problem: Population grows a million a year, domestic raw resources are pitifully limited, so what? Answer, put the million to work to make goods to pay for the imported resources and squeeze out margin enough to feed and clothe the swarming workers. It's the only answer—either because they will not or cannot emigrate in large enough numbers to extend the commercial sphere of the home land and relieve the population pressure, somewhat as the United States was wont to do for Europe. If the workers must multiply between the high mountains of Nippon and the deep surrounding seas they must export their work if they are not themselves exportable. But these exports of human products in lieu of the humans themselves must be steady, dependable, and, as far as possible, within a Japanese political and economic imperium. Hence Japan takes up the immemorial policy which holds that trade follows the flag and extends it to advancing the flag and compelling trade to follow. There results the engulfment of Manchuria, now of North, and next of all China—and then of the myriad islands of the southeastern seas.

This means that our traditional open door in China will lose its hinges and shoot its bolts. That in turn means that we shall lose all trade in China and thereabouts except what Japan permits and requires us to have. The hour of China's subjugation by Japan draws near. It can't be helped, because it is irrevocably decreed unless we are prepared to fight Japan. And we are not—at least not so long as we maintain our present intense interest in ourselves and our

growing indifference to the once popular idea that the United States is a sort of cosmopolitan knight charging around the world in search of opportunities to rescue fair-maiden countries, threatened by horrid monster nations. We shall lose our present place as the principal exporter—$60,000,000—that's all—to China and perhaps our 100-million-dollar investment in that country: But what are they to a 400-billion-dollar country? We are already scuttling out of the Philippines, largely because we do not wish to hold a sanguinary bone which may at any time infuriate as well as appetize the Japanese. So count the Far East out for us, and all the way in for the Nipponese. The Philippine bone and the China carcass will hold Japan for a while and perhaps choke her.



What really concerns us is Japan on this side of the Pacific—and this side begins at Hawaii. When it comes to talking about this side it is convenient, to some extent at least, to take the commonly accepted view that growing imports are akin to a war invasion of armed forces.

Now, there is no denying that Japan is going after magnified exports to the United States and all America, North and South, with all the zest which a terrier embraces a rat. It's her natural game. We talk chiefly in terms of domestic trade—greater by far than all the foreign trade of all the world—while these crowded nations, with a love of large families that goes back to their ancestors and projects forward to a vision of a world occupied by their increase, covetously adore foreign trade. American export trade is 60 per cent less than in 1929; Japan's is already greater than it was in 1929.

The immediate driving reason for Japan's lunge for our cotton goods market and a dozen dinky gadgety markets is one of those reasons which must be valued in reverse by the standards of international trade. It seems that without making the slightest move to extend our foreign cotton fiber markets—indeed, we were doing our best to destroy them by plowing up the cotton plants and fining farmers for planting more—the Japanese became our hugest patrons of cotton by the bale. So much so that, plus low prices and a depreciated yen and the consequent shrinkage in dollar exports of raw silk they found themselves on the short side of the international ledger. From being greater exporters to the United States than they were importers, they found that by money measures they were buying around twice as much from us as they were selling to us. While Uncle Sam was still their 80 per cent buyer of raw silk, low yen prices multiplied into fewer dollars. Japan must have cotton to carry on her textile war with Britain, Holland, India and what not. The next and natural step was to sell some of that American cotton, turned into Japanese cloth, to the United States, to help fill up the trade deficit.

Now notice the sequence: Japan jumps into our cotton fields to buy cotton which the rest of the world has been shunning—becomes our best customer for that principal item of American export; sends it back across the Pacific in such volumes of Nipponized cotton—and so cheap—that our people form buying lines to take it away from the importers. Sounds silly in a way but the tariff outcome is that Japan has just been penalized by the Tariff Commission and the President with a 42 per cent customs surtax because she sells us cheap goods made from American cotton paid for cash-on-the-nail. Three months ago we all but abolished Japanese gloves of one kind, and almost monthly the Tariff Commission finds a new chink of cheapness to fill.

But it doesn't sound so silly to our textile manufacturers and their workers, who see certain segments of their markets taken away from them as clean as a cloud of locusts operate on a wheat field. Even as Secretary Hull was blandly talking about the excellence of the honorable gentlemen's agreement made a year ago to keep Japan's cotton goods exports to the United States within reason, the President was realistically writing his "I approve" signature to a decree that inherently denied its efficacy.

Furious are the cries of anger from Japan and loud the threats of reprisals—for example, an embargo on our raw cotton. Actually the Japanese probably know well that the 42 per cent surtax means only that the American government will get a cut out of their profits and the added price the consumer will pay. It's a home-consumption gesture to fill up an unfillable gap unless American valuation were prescribed—designed to appease the domestic manufacturer for a Japanese invasion of a market for 2 per cent of his cotton goods output. In the Philippines it was found that it required a tariff of 300 per cent ad valorem to stop the Japanese influx. But the long-remembering son of the Emperor-God is not content with talky threats. He determinedly scans the world for other sources of cotton—India, Brazil, Egypt, China (especially alluring).

One day the American farmer will see what it costs, reflect the inscrutable Japanese traders, to sacrifice a market by the bale for a sake of one by thread. In the long meantime, while the Nipponese develop new cotton supplies, they can hardly afford to restrict their imports from America. What else can they buy so advantageously with their raw silk? Their machinery is adapted to the American staple and they are too sensible to add a farthing to the costs, upon the lowness of which they have based a textile penetration of the world, which now places them first among the cotton cloth exporting nations. Yet it does seem rather picayunish that for the sake of some restriction of imports of cotton cloth from Japan (not amounting to 2 per cent of that country's total export of such goods) we should direct Japanese animosity at our raw cotton—begging, as it is, for consumers and customers. On the other hand, the individual cotton manufacturer can not be blamed for complaining when he sees his entire trade in certain bleached goods going out the window on the wings of prices that he can not imagine as real. The total imports of bleached cloth were 5,800,000 yards from Japan in 1934; in 1935, 28,600,000 yards. In the first quarter of this year this

textile flood rose by 21,000,000 square yards as against the like period of 1935.

The co-ordination between government and national economy is so efficient in Japan (with the industrialists supplying the brains and the government the authority) that Japanese industry can make a touchdown in almost any line of export it picks out, before the invaded country realizes what is happening. This industrial strategy is so nimble that by the time the injured trade has begun to squawk the smart Jap traders are ready to raid some other coop. They have burned up the cheap electric bulb market in this country, paralyzed the knit-glove factories, harried the oil-packed fish larders, shocked the canned crab meat trade, cleaned up on frozen swordfish, introduced panic into the cigar lighter business, routed the tuna fish packers (who put up albacore), cracked the pottery industry, humiliated the American flag factories, flooded us with sneaker shoes and got their long fingers into various patented American gadgets. It's largely a trade of little things in small respective amounts, totaling up to impressive quantities.

Against the reversed balance of trade resulting from the low price of raw silk (and the high price of raw cotton) and the depreciation of the Japanese currency unit the Japanese skip around like startled ants, looking for offsets here and there. But do the best they can, they have to take more and more of their imports from the United States. Between 1929 and 1934 Japan's share of America's total exports went up from 5 to 10 per cent, and the U. S. relative share of Japanese exports actually went down—partly because of the silk-cotton factor, but also because Japan found friendlier and more profitable markets elsewhere.

As other nations have tightened up on the Japanese trade rushes, the Japs have redoubled their efforts to get into the colossal American market, where the same effort may yield a thousand times what it would elsewhere. Besides goods already mentioned the Japanese pick up trade here and there in cotton floor coverings, silk and rayon fabrics, and clothing, menthol, camphor, brushes and their handles and backs, braids for hatmaking, dolls and toys, tennis shoes, small articles of paper mache, cellulose, leather, metal and wood, etc. Much of this pitifully cheap and flimsy stuff is beneath competitive contempt, being stuff that American manufacturers would not make and that would not be bought here except in a hardup period. Many of these cheap Japanese specialties represent a shift from Germany to Japan, engineered by American importers—the Americans picking the article, writing the plans and specifications, directing distribution and virtually supplying the capital.

An intriguing phase of the Japan-American commercial trade is that the Jap imports go to pay in part for the machinery the Japs buy from us to make these very goods they send us. Thus they buy their raw materials and machines from us, pay us with their joint product and then turn the surplus into competition with us elsewhere.

The fact is that the Japanese can easily outsell us in a thousand articles in our own markets. They have labor that is incredibly cheap, docile, fairly efficient and often supplemented by the best available power and machinery. By the same token they can out-sell us all around the world in their specialties—mostly cheap and petty. But they are doing it with our raw cotton, oil, lumber, iron, copper, other materials, and with our machinery. The depression gave the thrifty, industrious, economical Japanese people (who must trade or die) a great edge on the Americans in competitive foreign trade.

Had our exports been more of a competitive nature we would have suffered severely at the hands of the Japanese. As it is their traders have eaten us out of house and home in some lines in Asia and South America. Despite the

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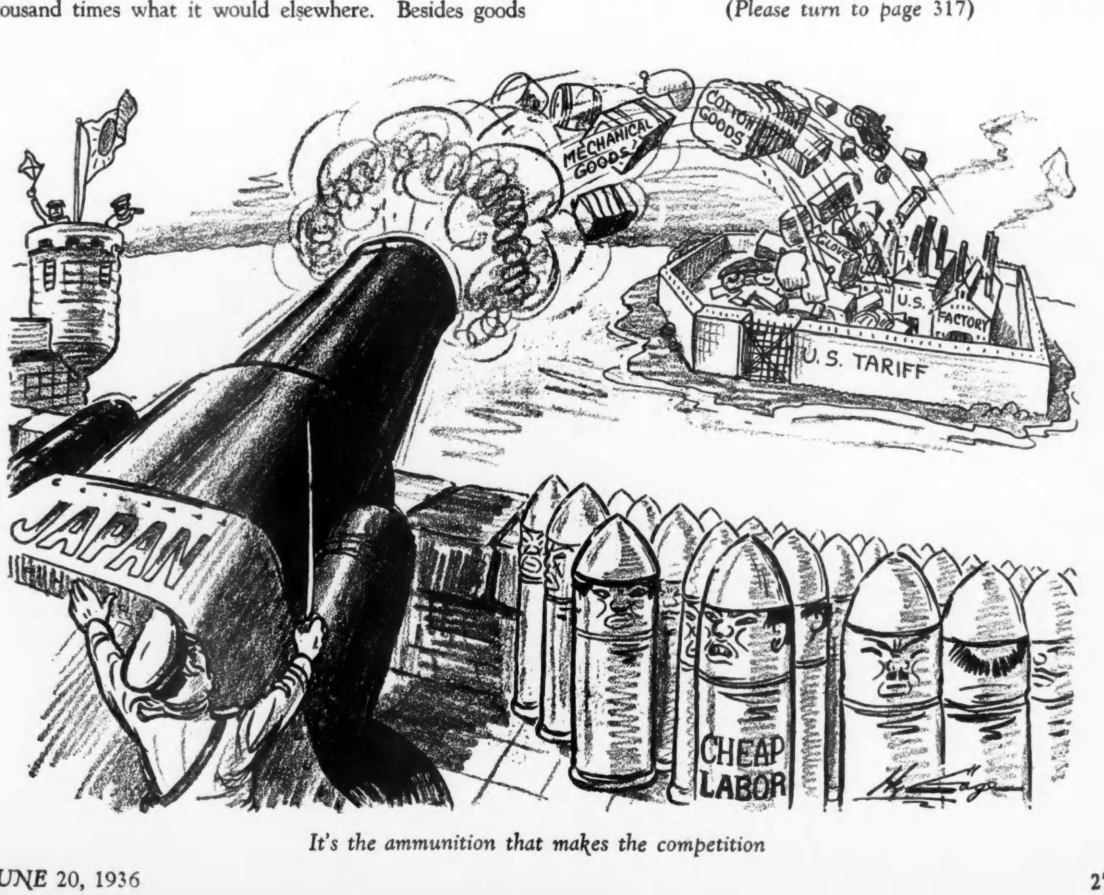


It's the ammunition that makes the competition

Significant Foreign Events

By George Berkalew

Foreign Representative of The Magazine of Wall Street

The Hitler-Mussolini Merger

Despite denials by the Wilhelmstrasse, which sometimes appear in the foreign press ahead of the rumors they are contradicting, there is every indication of a growing undercover understanding between Rome and Berlin. There is reasonable cause to suppose that the Italian plans for the German participation in the exploitation of Abyssinian territory and resources have advanced to a practical stage. The anaemic state of Italian credit would alone be sufficient inducement to approach the one non-sanction industrial nation technically equipped to lend a helping hand in any colonial development project. Economically ostracized, this would be exactly the type of job which would appeal equally to Mussolini or Hitler on a partnership basis. Already there is a mission of specialists and economic advisers from Germany on hand in Rome, and there is talk in Germany about extending lines of credit for the purchase of development equipment.

Contrary to popular opinion, the motives and longer-range objectives of the two dictators need not necessarily conflict—in fact a partnership of consulting engineers in Abyssinia might easily be expanded in scope to include the function of experts on marketing of certain Central European goods—at first acting, of course, in the capacity of friendly advisers—later, perhaps, adopting as painlessly as possible a less altruistic interest in the respective economies of their eastern and southeastern European clients. This tendency is all the more likely to take shape in view of German and Italian antipathy toward Russia; the all-too-easily accepted belief that France is crumbling under Communism; the circulation of rumors in the City that London financial interests are contemplating the negotiation of fresh loans with certain Central European countries, in order to maintain British domination in Mediterranean and Near-Eastern affairs.

Wide World Photo

Two dictators who may join forces.

* * *

France—Communistic Combustion

There is practically nothing new that can be said about France or her franc. Foreign observers have repeated, *ad nauseam,* the necessity of monetary devaluation. Franc adherence to gold has, since the period of Poincaré, become almost as much a fetish as a principle of finance. Most moral principles are workable only so long as the majority adheres to them. When the majority adopts a new principle, the stand-pat becomes a martyr. Whether it is a moral or a monetary principle, the result is the same. Martyrdom may lead to immortality; but practically—whether we condone the idea or not—is more frequently the harbinger of prosperity.

No one can help but admire the game fight of successive French Governments to uphold the value of the franc. No one can help but commiserate with the French in their heroic foolhardiness. But there is no fool like an old fool, and France, along with a few gold-bloc satellites, has too long championed a lost cause.

What is the aftermath of this *cause célèbre?* A long-continued deterioration in economic conditions; interest rates approximately triple those of other countries; a sly financial juggling of cumulative deficits and, finally, a high cost of living, low purchasing power and general labor discontent. The onerous Laval decrees of deflation, coupled with no real betterment of the working man's lot, elected the Blum Government. But the stay-in strikes are not a premeditated manifestation of the election, but rather the sluggish backwash of successive waves of previous political pigheadedness. One fact is irrefutable—the strikes at their inception were instigated by Communist leaders. But the far-reaching magnitude of the strikes cannot be attributed to Moscow. It is not at this stage in the interests of Russia to embarrass the new French Government or to throw a monkey-wrench into the armament and metal industries which were first affected. Stalin realizes that the time is not yet ripe for civil war in France. Hence the Communist Party is the only political group which still proselytes the maintenance of the gold standard. Prolonged deflation would discredit the present nondescript government, inflame smouldering factional feeling, render fertile the field for the "transformation of imperialist war into civil war"—the avowed ambition of Maurice Thorez, General Secretary of the French Communist Party, now a member of the Chamber of Deputies. The materialization of this idea is far from certain. The public works program, reorgani-

zation of the Bank of France, the 40-hour week, can hardly be classified as civil war measures.

The real problem of the new Government is to restore order and placate the camps of both the Communists and the Croix de Feu. This, *au fond*, is the pressing problem. The choice between the two schools of "innocuous" inflation or clearcut devaluation is a matter of secondary importance. One of these alternatives is inevitable, but if the new Government has the courage of its convictions, it will resort to the latter alternative as the lesser of two evils. The main object is to restore confidence and stop the spread of Communist combustion. The franc at 20 to the dollar might hasten materially the realization of these two objectives.

* * *

Guatemala—A Tug of War in Tariffs

In the year 1930, when most countries were complaining bitterly against the American Tariff Act, Guatemala managed a *tour de force*, inflicted on the United States higher duties, cut in ruthlessly on American trade in this particular Latin-American state. Ironic in the little country's tariff act was the fact that while it imposed duties on products from the United States, which most of the other trading countries of the world would have also been delighted to impose in the spirit of retaliation, Guatemala was one of the few exporting countries which could bear no grudge against our new customs barrier.

For Guatemalan coffee and bananas we left the door wide open. In fact approximately 98 per cent of Guatemalan products entered the United States duty free. Our exports, because of the new duties, fell from a high of $13,195,000 in 1928 to a low of $2,794,000 in 1932. Guatemalan exports to the United States between 1926 and 1932 have decreased by about 78.5 per cent. Since 1933, however, American imports from the Central American country have increased steadily, nearly doubling; whereas Guatemala has bought our goods irregularly to the value of $4,000,000 in 1934, dropping back slightly in 1935 to $3,883,000.

This larger and increasing importation on our part does not mean that economically we need Guatemala more than she needs us; nor does it mean primarily that she had raised her tariffs so high that our goods, for which there exists a real demand, could not climb over. Guatemala lost purchasing power as the slump in the world's coffee market continued. Crisis followed crisis until the credit situation became acute. The danger loomed of new duties for revenue on coffee in importing countries, thus still further choking the country's supply of foreign exchange.

Germany, which, together with the United States, accounted for two-thirds of Guatemalan exports in 1935, relieved the exchange problem facing both countries by inaugurating a barter system, exchanging tropical products needed by Hamburg traders for cheap cars, motorcycles and tires. This assured the Germans a market, promised an outlet for coffee, but lowered the amount of exchange available for the purchase of American merchandise.

The timely American Commercial Treaty obtained satisfactory reductions from the customs duty on passenger cars, bound the Guatemalan duty on trucks, gave in exchange an assurance that United States purchases of coffee and bananas would remain duty free. To supplement this assurance, which removes the biggest bugaboo faced by the Central American exporter, the United States has already taken 49 per cent of the Guatemalan coffee crop for 1935-1936, and the export season is not yet ended.

With prospects of a gradual lifting of rigid exchange restrictions, American tourists are visiting Guatemala in larger numbers. Total tourist traffic advanced 111 per cent in 1935, and returning visitors report improved conditions.

Yugoslavia Is Wooed by New Pretenders

The political and economic stock of the Kingdom of the Serbs, Croats and Slovenes is rising fast these days as one international conference after another takes place in Belgrade, one Foreign Minister after another makes his call, and the general financial situation of the country gradually improves. The visit of Foreign Minister Beck of Poland during the second half of May has been interpreted by European observers in a great variety of ways, yet all concede that his visit, ostensibly to return a courtesy call made several years ago, is of profound importance. Yugoslavia is known to be seeking allies against Italy to offset the feeling of partial isolation which has resulted from the declarations of the other Balkan Pact States, at the recent meeting, that they would support Yugoslavia against attack only in case the attacking forces were limited to Balkan armies, unaided from without. France is playing so complicated a game, in attempting to hold Italy as an ally against Germany in spite of sanctions and perhaps in spite of certain obligations to the Petite Entente, that Yugoslavian diplomats are not unanimous in maintaining their ancient faith in her support against Rome. Obviously, any port is welcome in a storm, and the moral support of Poland alone might be helpful and comforting to Belgrade at this crisis. Yet would Minister Beck go all the way from Warsaw to extend such support unless he had received inspiration from other chancelries? Some observers recall his recent conferences with Premier Van Zeeland of Belgium, and presume that he is carrying a message to Yugoslavia relating to a reorganization of European blocs with the smaller countries resolutely opposing the chaotic policies and continually aggravated animosities of the powers. More probable is the assertion that he is acting for his new and powerful anti-Bolshevick ally, Nazi Germany. Yugoslavia disapproves of the Franco-Russian Pact. Germany may see in Yugoslavia not only a political card to play in

Acme Photo

French strikers recently stormed the gates of the Renault motor factory.

time of need either against Italy or France, but also a very desirable commercial contact.

American statistics show that Yugoslav purchasing power is increasing since the slow recovery from the acute crisis of 1932. For 1935, exports from the United States to Yugoslavia amounted to $801,997 as contrasted with

(Please turn to page 323)

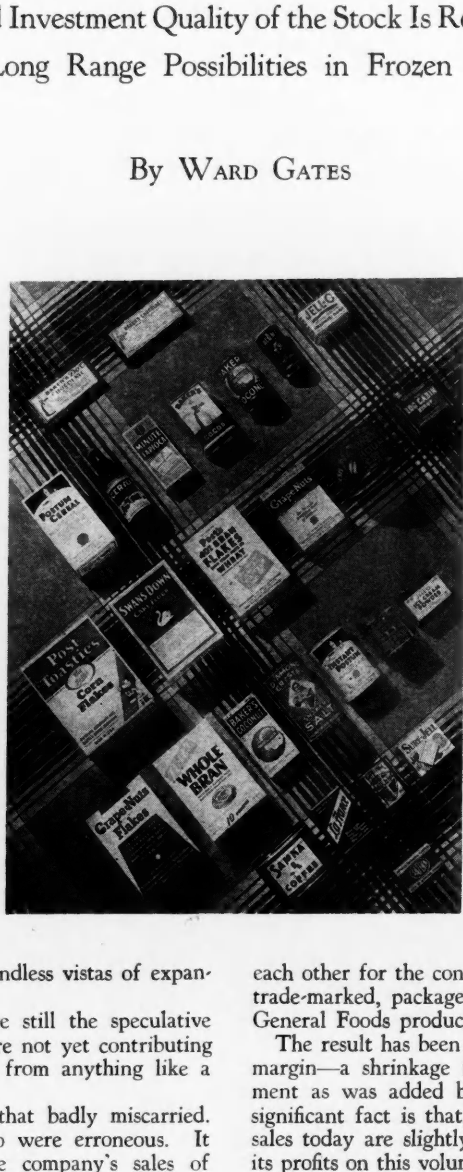
Appraising the Prospects for General Foods

Staid Investment Quality of the Stock Is Relieved by Long Range Possibilities in Frozen Foods

By Ward Gates

"THE possibilities of this business appear to us easier to underestimate than to overestimate. . . . The new field opened through the use of the Birdseye Quick Freezing Process is many times the extent of the field in which the present sales volume and income have been built. . . . Volume of over one billion dollars annually is a definite prospect within a reasonable length of time."

Such, in part, was the enthusiastic appraisal of the General Foods Corp. made in a pamphlet issued on August 23, 1929, by the brokerage firm of E. F. Hutton & Co., whose senior partner, Edward F. Hutton, had become chairman of the board of directors of this rapidly expanding packaged foods enterprise following his marriage to Marjorie Post Close, the "Postum"-"Grape-Nuts"-"Post Toasties" heiress.



Oh, well—that was 1929 when America had its head in the clouds and brokerage house statisticians were not alone in dreaming endless vistas of expansion and prosperity.

Today Birdseye Frosted Foods are still the speculative ace in the hole for General Foods, are not yet contributing to earnings and remain years away from anything like a billion-dollar-a-year market.

So much for one 1929 estimate that badly miscarried. Certain other 1929 assumptions also were erroneous. It was assumed for example, that the company's sales of trade-marked food specialties would continue to expand. Actually consumption of any food products is subject only to gradual growth, and the great expansion of General Foods' sales and earnings during the boom years was not due to increase in consumer demand but resulted automatically from the company's acquisitions, through exchange of stock, of various other long established and highly successful packaged food concerns. Once this process stopped—with the market crash—there was no further ballooning of sales and earnings.

Then there was the assumption that the profit margin on these nationally advertised food specialties—then a very handsome one—would be maintained or increased. Obviously, centralized management of a large group of profitable, non-competitive food companies would make them still more profitable through more economical and more efficient buying of raw materials, executive administration, selling and advertising.

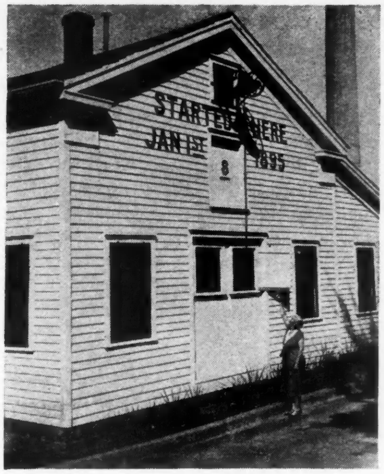
It was a valid assumption as far as it went, but it failed to allow for the hard reality that a juicy profit margin is the most conspicuous and vulnerable target there is for competition to shoot at. General Foods has a monopoly only in its own trademarked specialties and they constitute but a fraction of an eighteen-billion-dollar-a-year food market in which all manner of foods compete with each other for the consumer's dollar and in which scores of trade-marked, packaged foods compete vigorously with the General Foods products.

The result has been a pronounced shrinkage in the profit margin—a shrinkage far more than offsetting such increment as was added by able central administration. The significant fact is that, in physical volume, General Foods' sales today are slightly larger than they were in 1929 but its profits on this volume are only 60 per cent of what they were in 1929. Its dollar volume, though not reported by the company, is now between $115,000,000 and $120,000,000 a year, or about equal to the 1930 dollar volume and comparing with record high of $128,036,791 in 1929. On an average, however, the company's prices are 29 per cent lower than in 1929, while food prices generally are only 21 per cent under the 1929 level.

In all of the above there is nothing whatever of discredit

to the General Foods Corp. or its management. As a matter of fact the company's great expansion in the boom years following 1922 was soundly conceived and was in no sense a pyramided promotion. The established, profitable food companies taken over were acquired at reasonable prices, in fact at an average of only twelve times annual earning power. Stockholders were not called upon to put up new money, the whole program having been effected through exchange of stock. The management made no wild predictions either as to future sales or earnings. That the stock market entertained some illusions as to the basic character of the enterprise and as to its future was a common failing of the time.

In its products General Foods has no bonanza—no more than there is a bonanza in selling eggs or string beans or bread; but it has a large and relatively stable market in which the profits, while lower in ratio to volume than they were in the boom years, are still satisfactory. Both growth in the population and the present recovery trend in public purchasing power tend to foster a gradual expansion in the company's volume.



C. W. Post's first plant

In short, as far as any common stock can do so, the General Foods equity lends itself to investment, rather than speculative, consideration. The dividend of $1.80 a year—yielding 4.5 per cent at the stock's present quotation of 40—can be considered secure since earnings cover it with a reasonable margin to spare and since the company's working capital position, including cash items, is a notably strong one.

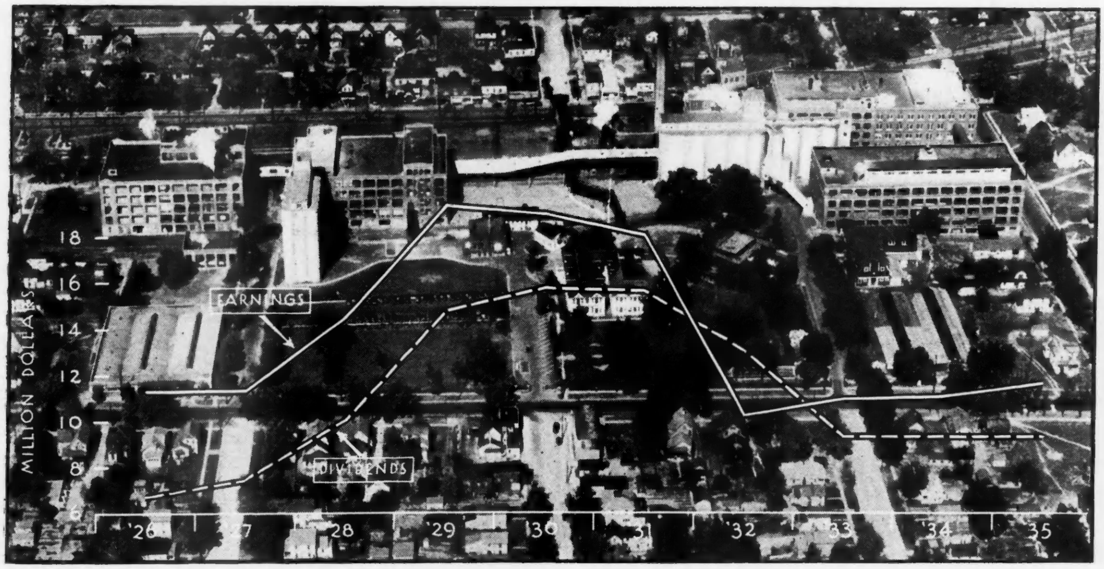
Today, as in 1929, the company's Frosted Foods division remains an unknown quantity. If there is any element of speculation in the outlook for the stock it centers here. This is the only boom-time purchase that General Foods made that was not that of an established, profitable enterprise. Much progress has been made in its development. More will be made. The great majority of those who have eaten some of these quick-frozen foods would unhesitatingly say there ought to be enormous possibilities in this field. Probably there are—but when they will be realized and how much they will mean in terms of sales and profits lie deep in the realm of conjecture.

No sweeping change in industrial or marketing technique or in the buying habits of the public takes place overnight—a fact easy to forget when enthusiasm over some new development is rampant. Between the time when the first automobile moved jerkily down the street and the time when the first 100,000 cars had been built years elapsed. Air conditioning today is an established fact and is conceded to have a vast future, but it will be a considerable time before a mass market is developed and not all of the companies now in this pioneer field will be in it when that market has been built.

In quick-frozen foods there are many basic and revolutionary advantages both to the producer and the consumer. Above all, perishable foods—quick-frozen and then stored at low temperature—are made substantially imperishable. Thus fish and oysters, for example, or various fruits and vegetables can be freshly packaged in season and marketed to the consumer anywhere in the country at any time of the year, still absolutely fresh.

In meats and poultry quick-freezing definitely improves the quality by increasing the tenderness of the flesh, greatly reducing the bacterial content and retarding the enzymic reaction which occurs in all food products and which is one of the agents causing spoilage. It has been proven conclusively that no loss of vitamin potency is involved.

Again, consider the waste and inconvenience all along the line in the traditional system of food dstribution and preparation even when seasonal foods are bought in season. Few foods are actually ready for the cook stove when bought by the housewife. Peas have to be shelled. String beans have to be cut up and the strings removed. The stems have to be pinched from strawberries. Corn has to be



Fairchild Aerial Surveys Photo

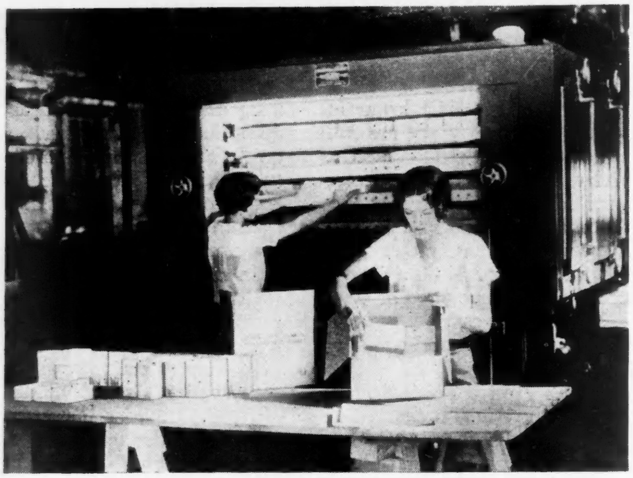
The present Postum plant at Battle Creek

shucked. If you buy a fish you pay for the head and tail, only to cut them off and throw them in the garbage can. If you select a steak the butcher will weigh it first, then trim off excess fat.

In contrast, the large scale preparation of quick-frozen foods at or near their point of origin, ready for the cook stove or table in convenient family-size packages, eliminates all waste, reduces the transportation cost that must enter into the retail price, saves storage space all along the line and makes possible more economical and efficient utilization of many inedible portions of foods in the form of by-products.

There is, of course, the cost of the freezing equipment which must be either strategically located with reference to the supplies of foods to be processed or must be mobile; and there is the substantial cost of the special refrigeration that must be maintained while the foods are in transit to dealers or retailers, and the cost of the special cabinet in which the retailer will have to keep them stored.

Yet, given a sufficiently large scale operation, the inherent cost advantages lie with the frozen-foods process, the savings pointed out above more than offsetting the special cost factors. In ready-to-cook convenience, in quality, in retained freshness of flavor and in a cost, which—pound for pound of edible food—is no higher than that of present foods, there is selling appeal to the housewife. In a method that saves much kitchen labor in preparing foods for cooking or fruits for serving there is selling appeal to restaurants, hotels, railroads operating dining cars, hospitals and other institutions. From the point of view of the retail storekeeper, frozen foods take up little room in their compact cabinet, do not have to be wrapped or packaged and thus save time in waiting on customers and—since quick-frozen foods will keep indefinitely—eliminate all of the present heavy loss that retail grocers have to take in the spoilage of unsold, perishable food.



Loading Birdseye products for quick frosting

Why Doesn't It Go Big?

Well, then, why doesn't the thing spread like wildfire? There are many reasons. It may be, as the supposedly wise philosopher said, that if you make the best mouse trap in the world, the world will beat a path to your door—but it will take its own sweet time in doing so. In these modern times new products are not so much bought by the public as they are sold to it. It takes time to sell the public anything new and it will take plenty of time to make any big dent in anything so deeply rooted and so custom-bound as the way the people of any country buy their food.

Moreover, it will take a lot of the most persistent national advertising to get home to the American people what quick-frozen foods really are. Speak of them to a friend or acquaintance and it is ten to one that he will reply: "What's new in that? We've had cold storage food for a long time—and I'll take mine fresh, thank you, if I can get it."

The difference is very simple. In quick-freezing, foods, already packaged, are subjected to temperatures as low as 45 or 50 degrees Fahrenheit below zero. They freeze so rapidly—from a few minutes for some vegetables and fruits to an hour or an hour and a half for certain more bulky meats—that only minute ice crystals are formed within the structure of the food, thus doing no damage to the cells or tissues or so little as to make no detectable difference in taste or quality. In ordinary cold storage much higher temperatures are employed, freezing takes place over an extended time—usually several days—large crystals are slowly formed within the frozen products and only a limited number of foods are palatable after such treatment.

Why is it that you do not hear Jack Benny putting over a few sly boosts for Birdseye Frosted Foods over the radio in the "Jell-O" broadcast, perhaps explaining to his audience the difference between a frozen fish and a *quick*-frozen fish? Again the reason is simple. You cannot advertise something nationally until you can distribute it nationally. There is the rub. You can flood the country with "Grape-Nuts" or "Jell-O" or "Instant Postum" or "Maxwell House" coffee or most any other General Foods product because all the grocer has to do is to stack these packages on his shelves, no special or additional store equipment being needed—but for Frosted Foods the grocer will have to have a cabinet that will maintain a zero temperature and these cost all the way from $300 to $2,000, depending on the size. General Foods has met that problem by buying its own cabinets and leasing them to retailers on long term at reasonable cost. Even so, extension of such a distributing system throughout the country will cost much money and take much time.

Thus far, retail distribution is confined to New England mately the Middle Atlantic states. There are now approximately 1,300 such outlets, about half of which are in hotels, restaurants, hospitals, clubs, etc. The biggest future gains, of course, must come in grocery and delicatessen outlets. It is expected that entry will be made into a large mid-Western city this summer, possibly Chicago or Detroit. This summer also will see the first Frosted Foods advertising of any importance, though it is expected to be confined to New England, where these products were first introduced and where the greatest number of retail outlets are now concentrated.

Others Can Compete

It should be observed that the future development of a big market in quick-frozen foods will not be a matter of patent monopoly. General Foods is owner of the Birdseye process but experimental work in the quick freezing of foods has been going on for many years and various methods of subjecting foods to a very low temperature are available. You can patent a particular machine that will do the job.

(*Please turn to page* 318)

Highlights of Legislation by Second Session of the 74th Congress

By E. K. T.

THE second session of the 74th Congress was even more submissive to the White House than the two preceding sessions of Congress during the Roosevelt reign. It successfully rebelled on the bonus bill, but that episode looked like a sham battle rather than a real contest. The Senate also rebelled on the revenue bill but in the end the President won on the principle of taxation of undistributed corporation profits, which many of his closest friends condemned. As the Presidential campaign year advanced, virtually all the Democratic members of Congress, including Senator Glass, who were formerly outspoken in their opposition to the New Deal became inarticulate. In their capacity of members of the opposition party, the Republicans as a group made but little better showing than that of the individual Democratic dissidents of former sessions.

Principal Acts Passed

Appropriations total approximately $7,400,000,000, close to budget estimate. Compare with estimated total expenditures for fiscal year 1936 of $6,600,000,000. Eleven regular appropriation acts are in the following amounts· Agriculture, $195,000,000; independent offices, $2,890,000,000; legislative department, $23,000,000; navy, $526,000,000; army, $572,000,000; state, justice, commerce and labor, $116,000,000; 1936 supplemental deficiency bill, $368,000,000; treasury and postoffice, $760,000,000; *Interior, $143,000,000; *first deficiency bill, 1936, $2,430,000,000 (of which relief costs are put at $1,425,000,000) but also authorizes P W A (Ickes) to deplete its R F C revolving fund up to $300,000,000; *District of Columbia, $43,000,000.

Adjusted Compensation Act, directed payment of soldiers' bonus certificates, through issuance of $50 baby bonds cashable by the Treasury; total placed at $2,300,000,000. This amount to be financed by Treasury. Payments therefor to veterans in fiscal year of 1937 placed at $1,500,000,000. In effect, makes total voted expenditures for fiscal year 1937, unless charged to 1936, $8,900,000,000; or, with Ickes permit $9,200,000,000. About the same as 1936 total.

Neutrality Act of 1935, arms control, etc., extended for one year.

Soil Conservation Act, succeeding A A A's outlawed crop control, will cost about $450,000,000 annually.

****Revenue Act*** amendment, intended to yield about $820,000,000 yearly, of which $600,000,000 will come from additional corporation net income taxes and the controversial innovation of levying a tax on undistributed corporation surpluses.

Federal Highway Act, authorizes future appropriation of $450,000,000 as follows: state aid highways, $250,000,000; grade crossing elimination, $100,000,000; farm-to-market roads, $28,000,000; forest trails, $28,000,000; national park roads, $20,000,000.

Repeal, in consequence of Supreme court's A A A decision, of tobacco, cotton and potato control acts.

Defeat of latest inflation threat — the Frazier-Lemke $3,000,000,000 fiat money bill for farm mortgage refinancing.

National Housing Act extending for one year insured building modernization loan activity of Federal Housing Administration, together with various amendments.

Creation of statutory ***Rural Electrical Administration,*** hitherto an emergency administration established by the President, contemplated expenditure of $410,000,000 in a ten-year period, $50,000,000 to be advanced by R F C first year. Purpose is to extend electric lines to farms not at present served, through loans to corporations, co-operatives, municipalities, etc., to be amortized to consumers.

Omnibus Flood Control act authorizes expenditures of $300,000,000 for a long list of projects. Lower Mississippi flood control act, authorizes $272,000,000 of further expenditure.

Commodities Exchanges Act amends the grain futures act of 1922 (which applied to exchanges dealing in corn, wheat, rye, oats, barley, flaxseed and grain sorghums) to include cotton, rice, millfeeds, butter, eggs, and Irish potatoes. Complements Security Exchanges Act of 1934 and gives power to Commodity Futures Commission to establish limits for future-trading, but does not apply to bona-fide hedging operations.

Robinson-Patman anti-price discrimination bill strengthens Clayton anti-trust law. Aimed at chain-stores, it affects all sales from manufacturers through to consumer, but is much more liberal than in form of the original Patman bill. Not expected to interfere with "legitimate"

Anti-lobbying law, intended to "publicize" efforts to influence legislation in Congress, requires organizations and agents to register with both houses, stating their objectives and expenditures for such purposes. Similar requirements of persons seeking to influence any executive agency.

Among the industrial bills which were near to possible enactment when Congress recessed for the Republican Convention on June 8 were the Ship Subsidy bill which was the President's only "must" at the beginning of the session, outside of the appropriation bills; the food and drug control bill, the Ellenbogen "little N R A" bill for the textile industry, the Federal Trade Commission bill to give that body more investigative authority; the Wagner housing bill (slum clearance); the Duffey bill to replace the soft coal "little N R A" act ruled out by the Supreme Court.

* **Still in conference stage when Congress resumed on June 15 and subject to change.**

¶ *Numerous Recent Legislative Developments Have Important Bearing on Future Earnings*

Railroad Recovery in the Balance

By Pierce H. Fulton

BASED on the figures for April so far made public, the net railway operating income of Class I railroads for that month will prove to be the largest for any April since 1930, the first year of the depression, and during which the railroads very generally maintained dividends.

These indicated results were obtained in spite of the greatly-changed traffic conditions with which the steam carriers have had to contend in recent years—conditions largely due to keen competition from the truck, bus, private automobile, airplane, inland waterways and pipelines. These results were possible, also, notwithstanding many acts of Congress, orders of the Interstate Commerce Commission, Reconstruction Finance Corporation and decisions of the courts.

All of these developments have been of a character to exert a direct or indirect influence on gross or net earnings. That this is so should be realized from the single statement that they involve in the aggregate over $220,000,000 a year, according to official estimates.

This is a big sum of money when considering the earnings of Class I railroads of the United States for the current fiscal year. Naturally, actual or prospective owners of railroad securities, in order to come to an intelligent decision as to what they should do, will find it necessary to follow and weigh carefully everything that has been done recently, or that is in contemplation with respect to the railroads—most of all at Washington.

At no time since the railroads came under the direction and control of Congress, the I C C and R F C, to the extent that they are now, have so many matters of vital importance to them and their security holders been disposed of temporarily at least, been put into effect or have been pending, as right now (see accompanying summary).

What Recent Railroad Developments Mean in Dollars and Cents

1—Social Security Act. In effect since Jan. 1, last. Expected to cost the railroads $16,000,000 this year and that constitutionality will be tested.

2—Railroad Retirement Act. In effect since March 1. Constitutionality being tested in the courts. Estimated annual cost to the railroads $57,000,000.

3—Reduced passenger fares for Eastern railroads. In effect since June 1. Suit begun to test constitutionality of the ICC order. Estimated annual loss to Eastern carriers $27,500,000.

4—Emergency Freight Rates. Expire on June 30. Extension for six months granted. Estimated yield to roads in 1935, $100,000,000.

5—Free pick-up and delivery service by Eastern railroads. Tariffs were to have gone into effect on May 25, but suspended by ICC to Nov. 1. No estimates available of probable benefits in revenues.

6—Pay for employees dismissed by co-ordination and consolidation plans. Agreement reached for five years from June 18.

7—Guffey Coal Act. Declared unconstitutional by United States Supreme Court. Estimated would have added $20,000,000 a year to operating expenses.

8—Pettingill Bill to repeal long and short haul clause of ICC Act. Passed by the House, now in committee in the Senate; early passage unlikely.

9—Probability of Government ordering consolidation of railroads in near future. Eastman says: "Carriers should be permitted to take the initiative."

10—Probability of continuation of office of Federal Co-ordinator of Transportation. Has cost the railroads over $500,000 a year.

The Social Security Act provides for various old-age benefits for former workers in industry as well as on the railroads. Under the Railroad Retirement Act the latter are exempt from the tax levied on other employers for these benefits, but they are liable for a tax for unemployment insurance. Employees are not required to contribute. The Act became operative January 1, the tax for this year being 1 per cent of the total payroll, 2 per cent for 1937 and 3 per cent thereafter. It is officially estimated that this levy will cost the railroads approximately $16,000,000 this year $32,000,000 for 1937 and $48,000,000 thereafter.

The Railroad Retirement Act, as the title implies, has to do only with the railroads. By its terms the companies are required to pay into the Government 3½ per cent of payrolls up to $300 a month and employees receiving remuneration up to that amount also must pay 3½ per cent of what they receive. Compensation in excess of $300 a month is exempt from the levy. Employees are to be retired at 65 and to receive an annual allowance for the rest of their lives, but not in excess of $120 a month. On the basis of present payrolls it is officially estimated that the contribution of the railroads will be approximately $57,000,000 a year.

For several years some far-seeing railroad executives have been firmly of the opinion that competition with all the important mediums of passenger transportation could be successfully met only by reduced rates. For between one and two years substantial reductions have been in effect on the Southern and Western lines. The official figures show a material increase in the number of passengers carried and a substantial increase in revenues. Just to what extent these increases were due to the lower rates

and to the people having more money to spend for travel is not easy to determine.

The Eastern roads were unwilling to join the Western and Southern lines in putting in reduced passenger fares. They contended that their losses in revenues would be heavy, chiefly because of different traffic conditions in their territory from those prevailing in the west and south. After much discussion, however, the I C C ordered the Eastern roads to put into effect on June 2 a schedule calling for 2-cent fares in coaches, 3 cents in Pullmans, with the elimination of the 50 per cent surcharge that had been in effect for the latter service. The effective date was subsequently changed to June 1.

Lower Passenger Rates

President Crawford of the Pullman Co., in announcing the changes in rates for that company, stated that it would also make some additional reductions for its service and expressed the opinion that the lower fares would result in a material increase in passenger traffic. The Eastern roads have claimed, however, that these fares would mean a loss in revenues to them of $27,500,000 a year.

While it is too early to get a definite idea of the effect of the reductions on passenger revenues, the Eastern carriers report a substantial increase in the number of passengers carried since June 1. It has been necessary to put on additional day coaches.

When the Eastern roads filed their tariffs to comply with the order of the I C C, they gave notice that they did so "under duress" and that they intended to test the constitutionality of the order in the courts. A suit to this end was filed in a United States Statutory court on May 23. The number of roads that joined in the proceeding was 23, the Baltimore & Ohio and its affiliated companies, which for sometime, have favored reduced passenger fares, did not participate. It was contended that the reduced rates are less than compensatory and that the order is "arbitrary and capricious, depriving the railroads of their property without due process of law, under the Fifth Amendment." This promises to be a bitter and long-drawn-out fight between the railroads and the I C C and to be the severest test yet of the latter's authority over the carriers.

For some time the Eastern roads have been of the opinion that a pick-up and delivery service for freight would help materially in meeting truck competition. Application was made to the I C C for authority to put in such a service, with no extra charge to shippers and consignees, but with an allowance of 5 cents per 100 pounds to those who performed this service for themselves. This petition was not granted, but the railroads were authorized to put in the service on May 25 with the 5-cent allowance suspended until November 1, during which time the opposition of the truckmen's association would be investigated.

It is most interesting to note that on May 23, the very day the suit was filed by the Eastern railroads to test the constitutionality of the order for reduced passenger fares, the Commission reversed itself for the second time and announced that the pick-up and delivery tariffs that were to become effective on May 25—48 hours later—also had been suspended to November 1 and that hearings on the whole proposition would be begun on June 16. Was there any connection between the two proceedings? Ask the I C C. Nobody else knows.

The railroads expected that this service would materially increase their freight traffic but could not furnish figures as to the probable increase in that item and earnings. Now the whole proposal is off until November 1. Why should the I C C fuss to such an extent over this matter in the case of the Eastern roads when it authorized a similar service for the Western carriers some time ago?

On at least two occasions in the last few years the railroads have applied to the I C C for a general increase in freight rates. In each instance the application was denied, but extra charges on certain commodities, known as surcharges or emergency rates, were authorized for a specified time. The most recent authorization expires June 30. Application has been made and hearings have been held to have the surcharges extended indefinitely, virtually made permanent. Vigorous opposition was offered by shippers. Although indefinite extension of existing rates was unanimously denied by the Commission on June 12, an extension for six months, with some modifications was granted. In the aggregate, it was estimated by the carriers in arguing for the indefinite extension, that the surcharges increased freight revenues of the railroads as a whole last year by $100,000,000.

Long Haul Rates

For some weeks there has been keen interest on the part of the railroads, shippers and water carriers in what is known as the Pettingill Bill. It was introduced in the House by Representatve Pettingill and provides for the repeal of the long and short haul clause of the Interstate Commerce Act. The bill was passed by the House by a standing vote of 215 to 41 and is now in the hands of the Committee on Interstate Commerce, of which Senator Wheeler is chairman. He has been quoted in Washington dis-

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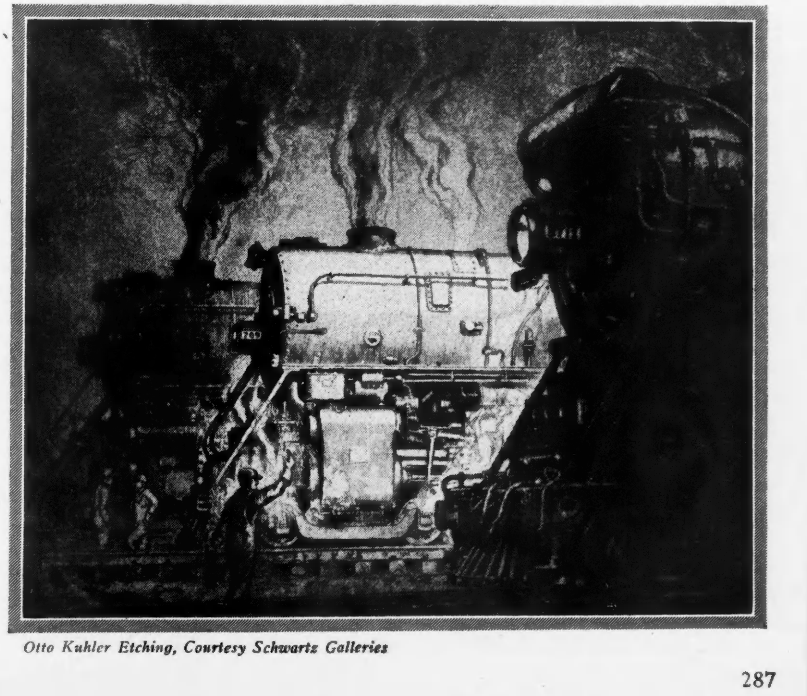


Otto Kuhler Etching, Courtesy Schwartz Galleries

The South Comes Back

Still Below Normal in Buying Power but Improvement Spurs Many Industries

By C. S. Burton

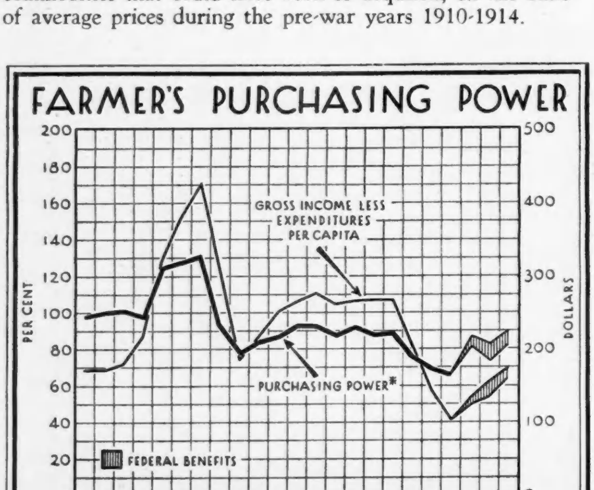
Feist Photo, from Nesmith

WHAT is the present and the prospective purchasing power of the Southern cotton-growing states? The question seems innocent enough. Probably, to a majority of cotton growers themselves, it might seem to be sufficiently answered by a comparison of price levels, and some figures as to the production of cotton and tobacco. Yet such figures do not by any means cover the scope of the inquiry. The question does not go merely to comparison of gross or net income, in terms of dollars, for one year or period with other years or periods.

What is the status of the farmer, as compared with other groups or other lines of endeavor and what will be the effect of his position in relation to business in the South and elsewhere?

In attempting to discuss the relative position of our Southern states, there are peculiar conditions to consider.

Undoubtedly, the general first thought would be the much talked of "parity price," by which it was meant that a bale of cotton or a pound of tobacco would be so tagged in price that it would buy, or, through the market could be exchanged for, the same volume of merchandise or other commodities that could have been so acquired, on the basis of average prices during the pre-war years 1910-1914.



However, "parity price" does not reveal volume of production, nor cost of production, nor, of itself, reflect the number of persons unemployed, but any one of these three factors could make meaningless the matter of price alone as a measure of well-being.

If, in order to obviate these objections, we take cost of production and market price and try to arrive at purchasing power of farm net income, we find ourselves with our backs turned upon the very problem we are trying to solve, as we can then only measure one period of agricultural well-being or depression with another period, which does not afford us any light whatever as to urban income. And of course both rural and urban buying power must be known to appraise the business potentialities of so great a section as the South.

Calculating Purchasing Power

The Bureau of Agricultural Economics has wrestled with the problem of real farm income and its relative status, year after year. Comparative purchasing power can be shown if we take farm income and first deduct production expenses (not including labor) and taxes and interest and divide this remainder by farm population, we have farm income per capita.

If we take national income, deduct farm income—gross—and divide by non-farm population, we have per capita income of those not on farms. It remains to bring the two figures to a basis where a proper comparison can be made, one with the other.

As a basis representing 100 per cent, or normal, analysts have set up the average of the five pre-war years 1910-1914. Thus we in turn set up the per capita farm figure in terms, or a percentage, of the base 1910-1914 figure, and, taking the index of prices paid by farmers as estimated by the Bureau of Agricultural Economics, again 1910-1914 equalling 100, we arrive at a figure denoting the per capita purchasing power of the farmer, in percentage of the base period figure.

If we can put the city man's income through some similar process, we will have the basis of comparison sought. First, the dollars received by each city man are in what ratio to the income of the same city man during the five pre-war years? This percentage being found, we take the cost of living for the city man as compiled by the Bureau

of Labor, also in terms of 1910-1914 equalling 100, and dividing income into the cost of living, we have the purchasing power of the city man, and we can say what the farmer's per capita income will buy for him as compared with the town dweller's intake. For example, in 1935, the individual farmer's purchasing power was equivalent to 82 per cent of that of the city man. Benefit payments helped the farmer up to a level of 90 per cent.

We have had to take the country as a whole to show the method of calculation, which, in turn, must depend, for exactitude, upon the tendency of broad averages to bury errors.

If it appears that emphasis is given to method, the importance of the figures is a justification. The mess in which international trade finds itself, the spread of hypertrophied nationalism is tied into these figures. For example, it is tied into the 22 per cent increase, from a ratio of 82 to a ratio of 100, in actual purchasing power which the farmer needed to give him an even break in 1935. In dollars, this would mean nearly 1,200 million dollars; through benefit payments he received 480 million dollars, a large part of which he must eventually repay, of course, in taxation.

The world over, we see governmental agencies in an almost frantic endeavor to so widen the agricultural base that urban life may proceed quietly, agriculture support the burden and be adequately rewarded.

Improving but Still Subnormal

In putting our Southland in the forefront of such discussion, one thinks at once of its major product and the leading item in our foreign trade—cotton. Cotton goes to market by a less devious route than most of our farm products. It enjoys a first-rank, future-contract market all its own, through which the spinner of yarns and the textile mill can protect themselves, just as does the miller, who hedges his grain when he buys thousands of bushels of wheat.

Throughout the cotton-growing states, there are few dairies, a lack of kitchen gardens, an insufficiency of crop diversification, and a concentration upon cotton. Chicago can ship hay to the Carolinas to feed mules, but, barring calamity, ships no hay to Iowa or Wisconsin or Missouri; so Chicago is interested in the buying power of the South

If we take up the idea of "parity price" which was set up by the Agricultural Adjustment Administration as being peculiarly fitted to apply to cotton, we may see how it works out.

In the first seven months of the current cotton year, August through February (the statistical cotton year begins August 1), the price for cotton averaged 11.1 cents per pound. The market could not be called free or normally responsive to trade influences, because of the large amount of cotton going into, and more recently coming out of, government loans. The five-year pre-war price averaged 12.4 cents per pound, or about 13 per cent above the current market. However, if we refer to "prices paid by farmers for commodities bought" we find that figure to be some 23 to 26 per cent above "parity," as calculated from month to month. Taking the later month figures of 26 per cent and calculating the price of cotton per pound accordingly, we have 126 per cent of 12.4 cents as the true parity price, which works out to be 15.6 cents per pound. To reach this figure, the cotton price needs to be moved up by 4½ cents, which is equivalent to a 40 per cent advance in the cotton market, before the growers obtain an actual price parity. We may, however, take into account the benefit payments made to cotton growers. Against the 4½ cents deficit, as shown above, we may allow approximately 3.4 cents on account of government checks, which leaves the farmer short only about 7 per cent of the real parity price.

But this leaves out the all-important factor of volume, and when we turn to study it, we are almost ready to forget that we tried to figure the cotton grower within any 7 per cent of his pre-war position. The average annual crop for the 1910-1914 period in round figures was 13 million bales. The final figure for 1935-1936, just published, is 10,420,246 bales.

Cotton Dominates the South

Thus the average gross income for cotton during the five-year period was on the parity price basis equal to 1,014 million dollars, whereas the present crop realizes, at 14.5 cents per pound—market plus benefit payments—756 million dollars. Although this is more favorable than in recent depression years it indicates that as a result of last year's crop the average cotton farmer is still some 30 per cent behind his purchasing power of pre-war years.

This is not to say, however, that the whole Southland, including as it does, such great urban centers as Atlanta, such resorts as Florida's with their re-awakening prosperity, nor such industrial centers as Birmingham is as much as 30 per cent below what we call, for want of a better term, normal. The present degree of activity in such places and the volume of trade effectively denies such a conclusion. Nevertheless, the whole South is inescapably under the influence of its dominant crop, cotton. As a recent booklet of the Bureau of Agricultural Economics concludes: "No other crop yet found can compete on an economic basis with cotton in the use of the land of the South." The purchasing power—the prosperity of that area—depends in a large degree upon the success of that crop.

Unfortunately, there are no figures available for a com-

(Please turn to page 322)

Nesmith Photo

Mobile's business district and harbor

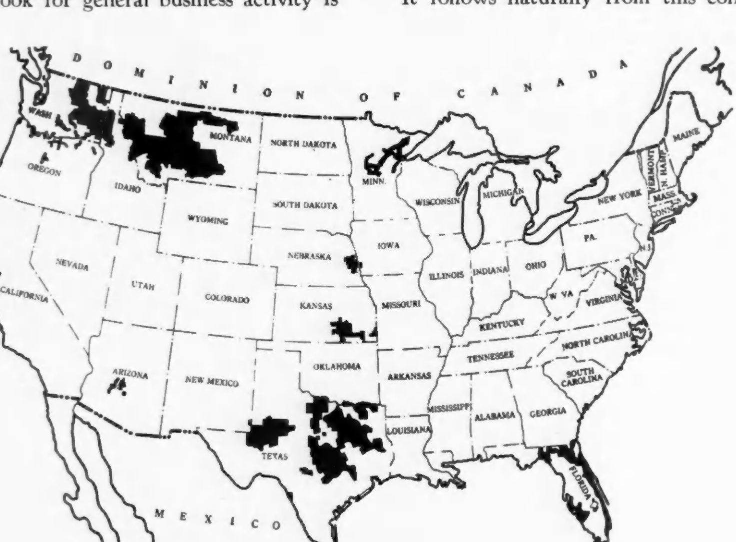
Earnings Trend Upward

Risk Inherent in Far Flung Holding Company Under Present Political Pressure Is Modified by Possibilities in High Leverage and Improving Position

By Francis C. Fullerton

WITHOUT claiming that there is anything new in the point, it is well to stress again that the public utility industry is currently under a strongly favorable economic influence and an almost equally strong unfavorable political influence. There is nothing nebulous about the factors in the utility equation; the picture is so clear-cut as to be quite unusual. Latest reports of electric power production show that the weekly output is running some 13 per cent ahead of a year ago, while last year was considerably better than 1934. Further gains are confidently expected, as the outlook for general business activity is hopeful and weight must be given to the mounting total of household appliances. Selling more power, the public utility companies are receiving more revenues and, because everything points to their selling additional power in the future, their revenues are likely to continue trending upward.

Unfortunately, this simple statement of fact is by no means the whole story. Utility revenues are up, but higher revenues only mean a more prosperous company if other things are equal and in this case they are very definitely not equal. It is only comparatively recently that the utilities have been able to translate a higher gross into a higher net, for so fast did taxes and other expenses increase that for some time the whole of the gain in gross was absorbed. Now, however that net incomes are trending very definitely upward, this particular trouble may be considered to have slipped into the background and there remains only the threat of government competition and interference. This is the crux of the unfavorable aspect of the matter. To buy or not to buy public utility common and preferred stocks, particularly those of holding companies which are under sentence of death according to the terms of the Public Utility Act of 1935, is virtually a question of whether the present Administration will be able to drive its campaign of utility persecution to a successful termination.



Properties of American Power & Light

It follows naturally from this conclusion that investors will suffer to the greatest extent in those companies most vulnerable to the Government's plans, should they be successful: also, conversely, if the political persecution should fail, that the greatest benefits will accrue to those interested in these self-same companies. Although it would be the height of presumption to anticipate the coming court decisions that will finally settle the matter, one may nevertheless review precedent and cite the present status of pertinent litigation. In the recent T V A decision the Supreme Court established the right of the Government to dispose of "surplus" power and it would seem that by carefully following the points made in this decision the Government could set itself up as an important competitor of private industry. This, however, will

take time and there is always the chance that political sentiment will change, or that the politicians responsible for the threat will be changed in the November election.

As for the elimination of the holding company such as is required by the Public Utility Act of 1935, the final adjudication of this matter seems almost as far away as ever. It is known, of course, that the Securities & Exchange Commission is proceeding against the Electric Bond & Share Co. It may not, however, be so generally realized that the Commission is doing its level best to bring the case within the narrowest possible limits and that when this particular fusilade is over the constitutionality of all that really matters in the Public Utility Act probably will be just about as far away as ever.

This being the case, time with all that it implies in the way of increased public utility gross and net, would seem to be working in favor of the companies. Investors, alarmed at what seemed to threaten the destruction of their capital, will gain confidence as the date of that destruction is put forward, perhaps never to arrive at all. More especially will they gain confidence as the earnings applicable to their commitments increase and dividends commence to grow.

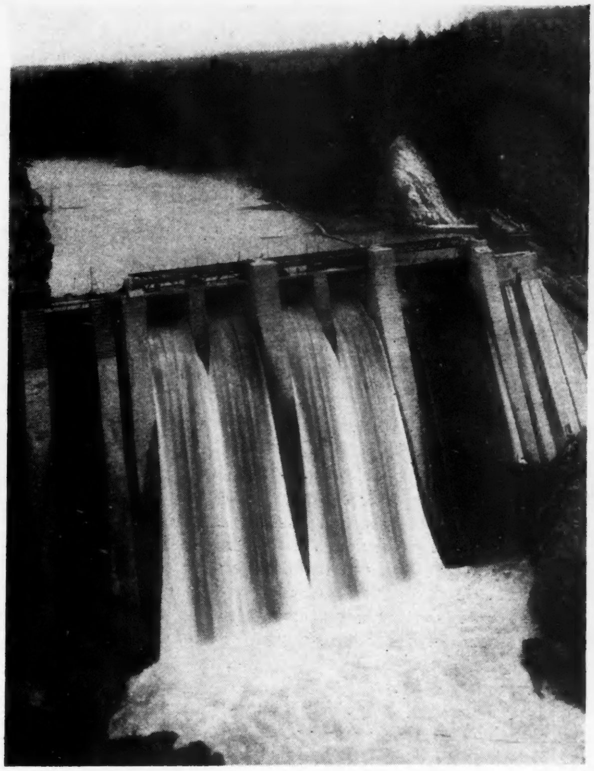
There is, finally, one other consideration which holding company investors may observe in connection with the death sentence. Should this phase of the law become operative it is entirely conceivable, even likely, that holding companies whose properties are widely scattered may be able to effect sales and exchanges with other companies and so produce a closely-knit system which would be all in adjacent states or contiguous territory.

It is against such a background that all public utility holding companies must be appraised and, more specifically, the American Power & Light Co., with which we are here primarily concerned. The common stock, the preferred stocks and to a lesser extent the junior bonds of this company are speculative, but under present conditions, though they fall down a little from the political angle, they are speculations possessing real economic merit.

The American Power & Light Co. is a holding company, whose sub-holding companies and subsidiaries are scattered from one end of the United States to the other. It is the type of organization that would seem to be most vulnerable to the Administration's plans both as to elimination of holding companies and as to governmental competition with private industry, *should* they be ultimately successful—assuming of course, that exchange of properties to effect an integrated system as mentioned above, should be found impossible. On the other hand, this is the type of organization that will be found most profitable in the event that these plans miscarry, or be postponed beyond the point to which the stock market has discounted.

The properties of the American Power & Light Co. stretch from Washington in the Northwest to Florida in the Southeast and from Minnesota in the North to New Mexico and Texas in the Southwest. In all, the territories served have a population of some 3,500,000, while the customers to whom the company supplies electricity, manufactured gas and natural gas, water and miscellaneous services total not far from 1,000,000.

Electricity is the most important phase of the company's operations, approximately 85 per cent of subsidiary operating revenue being derived last year from this source: gas provided 9 per cent, transportation 6 per cent, while the balance came from water sales, ice sales and from miscellaneous sources. The American Power & Light Co. is importantly dependent upon copper mining and refining, for the Montana Power Co. is one of its principal subsidiaries, supplying electric and other services throughout the state from which it derives its name. Taken as a whole, however, and noting the wide area over which it



Long Lake Station—Washington Power Co.

operates, the activities of the American Power & Light organization may be considered to be well diversified and calculated to benefit both from the expected increase in industrial activity and the mounting installations of current-consuming household appliances.

As is the case with the majority of public utility holding companies, the capital liabilities of the American Power & Light Co. do not present a particularly simple structure. There is the customary common, preferreds and bonds of the parent company and the preferreds and bonds of subsidiaries, together with a minority interest in the common stock of subsidiaries. In the case of the parent company there were outstanding as of December 31, 1935, 3,013,813 shares of common stock of no par value; 793,581 shares of \$6 cumulative preferred which rates equally with 978,444 shares of \$5 preferred. The holding company's 6 per cent debentures outstanding totalled some \$43,000,000, in addition to which it has assumed slightly more than \$4,000,000 of the 6 per cent debentures of the Southwestern Power & Light Co: these rank equally with its own debentures. The minority interest in the common stocks of subsidiaries is carried on the books at only \$514,000, although the subsidiary preferred stocks outstanding with the public which are entitled to \$100 a share on liquidation aggregated almost \$112,000,000 at the end of last year. Finally, mortgage debt of subsidiaries totalled \$306,000,000, in addition to which there were outstanding subsidiary debentures to the amount of \$21,000,000.

This is clearly a formidable capitalization, although it is only fair to point out that the size of a capitalization must only be considered relative to the value of the properties and their earning power. It is evident, however, that having to pay interest on mortgage bonds, dividends on

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Making Money in New Markets

The Rules of the Game Are Greatly Changed and the Trader's Strategy Must Change with Them

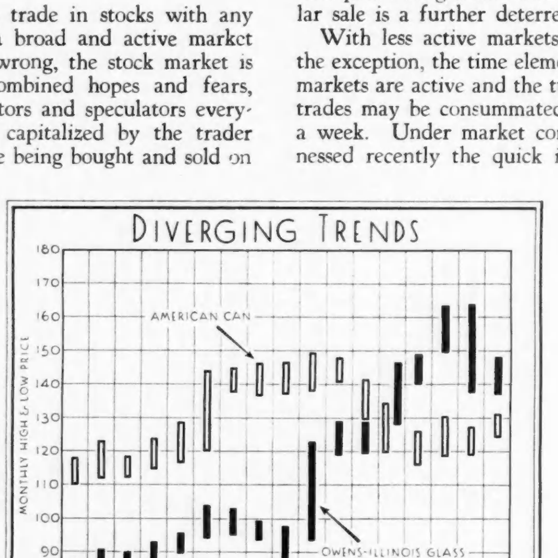
By Morton Thorndyke

THE technique of stock speculation as it was practiced in the late 'twenties has undergone a sweeping change. The Durants, the Cuttens, the Fishers and the host of lesser known market operators who won and lost fortunes in the decade following the World War would today be bewildered, if not actually stymied, in plying their trade. Many of the familiar guideposts are missing and new ones have taken their place, routing the stock trader into strange territory. The figurative warning "S E C Working" requires numerous detours into unaccustomed directions. The market trader and stock speculator has had literally to re-orient himself.

The fact that speculation, in the stock market at least, is not at the moment the thriving art that it was once may or may not be the result solely of the array of regulations and restrictions with which the trader is confronted at the present time, but they constitute a major contributory cause. The point is that the rules have been changed and the changes have reflected themselves in the behavior of the market. They have had a salutory effect upon the fundamental technique of "what to buy," "when to buy," "what to sell" and "when to sell."

For the average individual to trade in stocks with any reasonable measure of success, a broad and active market is a prime requisite. Right or wrong, the stock market is a sensitive barometer of the combined hopes and fears, judgment and opinions, of investors and speculators everywhere. This condition can be capitalized by the trader to best advantage when stocks are being bought and sold on a scale sufficiently broad in its scope to establish a definite trend and produce significant movements in stock groups, as well as individual issues. Opportunities for profitable short-range speculative ventures are materially restricted by dull and narrow markets.

It is only too apparent that the nature of stock market regulations in recent years has effectively curtailed speculative activity, accompanied by a corresponding reduction in the breadth and activity of the market as a whole. It is undoubtedly true that much of the stock market legislation enacted since 1933 has been intentionally designed to limit the activities of the nation's securities exchanges, as far as possible, to the single function of providing investment liquidity, with a minimum of fluctuation induced by purely speculative operations.



The wisdom and feasibility of such an objective may be discussed both pro and con at considerable length. Moreover, further experience may require some modification in the more stringent of these regulations. For the present, however, the stock market trader must accept the circumstances as they are, adapting himself to a technique best calculated to meet them.

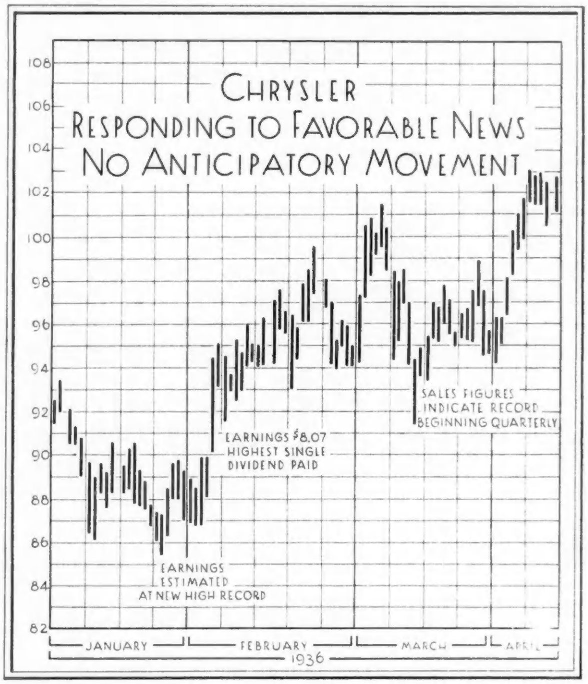
The forces responsible for the changed complexion of the market are largely in the nature of legal or quasi-legal regulations, while of those which are not, strictly speaking, in these categories, most of them can be attributed to these regulations. Manipulative tactics and pool operations have been greatly curtailed by the operation of Section 9 of the Securities Exchange Act and by Stock Exchange regulations as well; specialists on the stock exchange have had their activities considerably circumscribed; and restrictions have been placed on operations for joint account. The regulation prohibiting short sales at a figure below the last regular sale is a further deterrent to speculative activity.

With less active markets becoming the rule rather than the exception, the time element has been lengthened. When markets are active and the turnover is fairly large, profitable trades may be consummated in a single day, three days or a week. Under market conditions such as have been witnessed recently the quick in-and-out trader has but scant opportunity to make a worth while profit unless he happens to catch a sharp fortuitous bulge or dip in some special stock. But it is not unusual for the market to go along quietly for days, with the list as a whole showing only fractional changes — insufficient for the most part to cover commission and taxes.

It is true, of course, that over the past year the market has had a number of short-term moves during which there was a wide range of speculative opportunities present—both on the long and short side. There is little reason for doubting that similar opportunities will

again materialize. In the interim, however, prolonged dullness and inactivity may so try the patience of the trader that he may be lured into changing or abandoning a favorable position prematurely, only to see his previous judgment confirmed, to his chagrin and financial loss. The point then to be emphasized is that once it is determined in the judgment of the trader that a definite position in the market is warranted—either on the long or short side—he should be prepared to stick to his guns, other things being equal, until the market throws off its inertia and breaks out on the up or down side. In other words, the trader must adjust himself to the more intermediate market swings on occasions such as have recently prevailed, so long as day-to-day changes are lacking in breadth and significance.

On the other hand, the trader may become an involuntary investor through the effect of the higher margin requirements which were inaugurated on April 1, under Regulation T of the Federal Reserve Board, which restricted loans, made by brokers to individuals, for the purpose of carrying stocks to 45 per cent of their market value. On May 1, under Regulation T, the same restrictions were placed on banks lending money to individuals to carry stocks. The numerous ramifications of these two regulations were discussed in detail by the writer in THE MAGAZINE OF WALL STREET under date of May 23.



Suffice it to say, therefore, that no other single factor has contributed as much to bring about the sub-normal activity which has characterized the market since May 1, as have these two regulations stiffening the margin requirements. If judgment may be passed on the basis of the events since May 1, then it may be said that the instruments of credit control now in the hands of the Federal Reserve are highly effective and their initial efforts to stifle speculative activity in the stock market have been crowned with success.

Since provisions for the regulation of margins were incorporated in the Securities Exchange Act of 1934, requirements have practically doubled. A trader desirous of purchasing $10,000 worth of stock is required to put up $5,500 in cash, borrowing $4,500 from his bank or broker. If he borrows against other stocks he must be prepared to give collateral to the value of $12,200, for which he may obtain a loan of $5,500, sufficient margin to purchase an additional $10,000 in stocks. In other words, his margin is 122 per cent of his debit balance.

Should the margin subsequently drop below 55 per cent, due to a decline in the market, the trader is not automatically compelled to provide additional margin, but his account becomes "restricted." The matter of margin "calls" is left largely to the discretion of the broker. A recent ruling by the New York Stock Exchange requires that the minimum margin in a brokerage account must at all times amount to 30 per cent of the debit balance, which would be equivalent to about 23 per cent of the account's market value.

The trader finding his account "restricted" has three courses open to him if he desires to continue trading. First, he may sell one stock and buy another providing that no increase in the debit balance is involved. Second, he may put up 55 per cent margin and purchase additional stocks, even though the margin on stocks already held has fallen below the 55-per-cent level. And finally, he may sell stocks short by depositing 10 points additional margin.

Particularly noteworthy is the fact that while the purchaser of "long" stocks on margin must be prepared to put up 55 per cent in margin, the margin on a "short" sale is only 10 points. In other words, the bear operator may take a position five times greater than the bull for the same amount of margin. The implications of this advantage in favor of the short-seller in a declining market are only too obvious. While it is true that ultimately the short-seller must become a buyer of stocks, the possibility of serious impairment to the technical position of the market must be conceded as a consequence of the restricted purchasing power of "long" accounts. Traders who, under more lenient margin requirements, might be inclined to average or purchase additional stocks following a dip in the market may find themselves without buying power and in the position of involuntary investors.

Obviously, therefore, the trader must be prepared against such a dilemma. Unless he is willing and able to employ a larger amount of capital, he should purchase a fewer number of shares, maintaining reserve buying power against the possibility of finding his account "restricted."

Another contingency which the trader must safeguard himself against is the possibility of sudden and wide fluctuations in market values. The experienced trader rarely commits himself to a "thin market" stock, finding the market leaders and those issues with a broad and active market much better suited to his purposes. Recently, however, a noticeable thinness has developed in the market for many issues which ordinarily would be quoted at less than a point difference between the bid and asked price. On frequent occasions the spread has been so wide that it has been necessary to print the bid and ask prices at intervals on the tape in an attempt to bring buyer and seller closer together. This situation has not been confined to the less active issues but has been experienced by such market leaders as American Can and duPont. It has not been unusual for an issue to drop five points or more on the sale of only a few hundred shares. Only recently the sale of a block of 1,500 shares of Westinghouse Electric precipitated a decline of about four points for the day.

Thin markets in the present circumstances are the result not only of restricted trading, but such factors as the

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Courtesy, Texaco Star

Texas refinery at Port Arthur, Texas

TEXAS CORPORATION

Markets Its Products on Nation-Wide Scale

Undertaking Vast Foreign Expansion—Stock's Position Being Strengthened by Debt Retirement

By James T. Cross

LARGEST of the so-called independents of the oil industry, the Texas Corp. is currently in the news because control of the great Barco concession in Colombia has passed and this company is one of the two recipients.

The Barco concession covers 1,200,000 acres in the heart of Colombia, an area considerably larger than Rhode Island and not so very far from that of Delaware. It has had a checkered career, has been dragged through the Colombian courts and politics and has changed hands a number of times. The concession itself is owned by the Colombian Petroleum Co., which in turn is owned 79 per cent by the South American Co. and 21 per cent by Carib Syndicate. The South American Co. was a wholly owned Gulf Oil subsidiary and it was this stock that Texas acquired and promptly sold half of it to Socony-Vacuum. Practically speaking, therefore, the Barco concession is now 39½ per cent owned by the Texas Corp., 39½ per cent owned by Socony-Vacuum and 21 per cent owned by Carib Syndicate.

Under the terms of the agreement, the developers have until 1941 to select a maximum area of 500,000 acres for permanent exploitation, upon which the remainder will revert to the Colombian Government. The Barco is an area of fabulous promise. It has proven oil values, a number of wells having been completed and shut down. It must not be thought, however, that the Texas Corp. and its partners have just to step in and quadruple their investment in no time at all. Like Italy's Ethiopia, the Barco is to cost money,

plenty of money, before it begins to pay real dividends. The development work will be as difficult and expensive as any undertaken in the recovery of oil. Further exploration work needs to be done, camp-sites cleared and accommodations provided, hostile natives quelled. A completely new 250-mile pipe line must be built to some point on the Colombian coast, for the agreement specifically states that the oil must be moved wholly through Colombian territory. All in all, a would-be exploiter of the Barco has ample money-devouring things upon which to ponder.

Fortunately, the Texas Corp. can look upon what to others would be rather an appalling prospect with considerable equanimity. The company's resources at the end of last year aggregated nearly half-a-billion dollars. For 1935, it showed a net profit of $17,065,037, after interest, depreciation, Federal taxes and other charges, which was equivalent to $1.83 a share on 9,340,069 shares of common stock outstanding with the public. A later report, made public in connection with a coming issue of debentures, showed that net income for the first quarter of this year totaled $5,842,897, or the equivalent of 62 cents a share on the outstanding common stock. Both the year's earnings and the earnings for the first quarter represent a handsome margin over the $1 a share being distributed in annual dividends to common stockholders. It is with these, and presumably other margins over dividends, that the Texas Corp. will pay for its share of developing the Barco and other phases of its business.

Complete Unit Already

The Texas Corp. already is a complete and extremely important unit in the petroleum industry. It produces its own oil and engages in every step which brings petroleum products to market. At the end of last year, the company owned 776,000 acres of land, leased almost 6,000,000 more and held some 800,000 acres in foreign countries—a total of 7,400,000 acres, not including the Barco. Gross production, which represents the output of company operated wells, and wells operated by others before deducting royalty interests, together with the company's royalty production on wells operated by others, totaled some 46,000,000 barrels last year. A great part of this crude was transported through the 7,000 miles of pipe line which the Texas Corp. itself owns, or through the 1,300 miles in which it has an interest.

Also in the transportation field are steam-tankers, motor ships, barges and the like, making up in all a fleet of more than 200 craft of various kinds. In connection with its marine equipment, the company's last annual report said: "owned and chartered equipment, ocean-going and inland, was operated during the year to capacity, surpassing all previous years from the standpoint of volume and efficiency." The tank car fleet was sold last year and at the same time a long-term renewable lease was signed for tank car requirements.

Refinery Capacity Large

Having produced its own oil and transported it, the chances are that it will enter one of the organization's twenty-three refineries. Runs to stills last year totalled more than 76,000,000 barrels, from which it is evident that the company purchases a great deal of crude in addition to that which it produces itself. After refinement some of it will utilize the output of Texaco's own tin can factory and finally meet its destiny through one of the 40,000 retail outlets which are maintained throughout the country—a national organization, the largest of its kind.

The breadth of the Texaco line of products is not perhaps generally realized, although everyone in the United States and a great many abroad are familiar with the red, white and green sign. More than 350 distinct products are marketed. These include, of course, various gasolines, oils and greases for the motorist and the same necessities for aviation as well as domestic fuel oil. In addition, general industry is an important customer, buying engine, turbine and motor oils, diesel oils and refrigerating oils, machine oils, cutting oils and soluble oils, textile oils and greases of all kinds. The asphalt and roofing line comprise various asphalts, paving oils and surfacing materials, asbestos fiber roofing covering, asphalt shingles and asphalt paint. Finally, paraffine wax, rail preservative, and liquid wax dressing are among the company's miscellaneous products.

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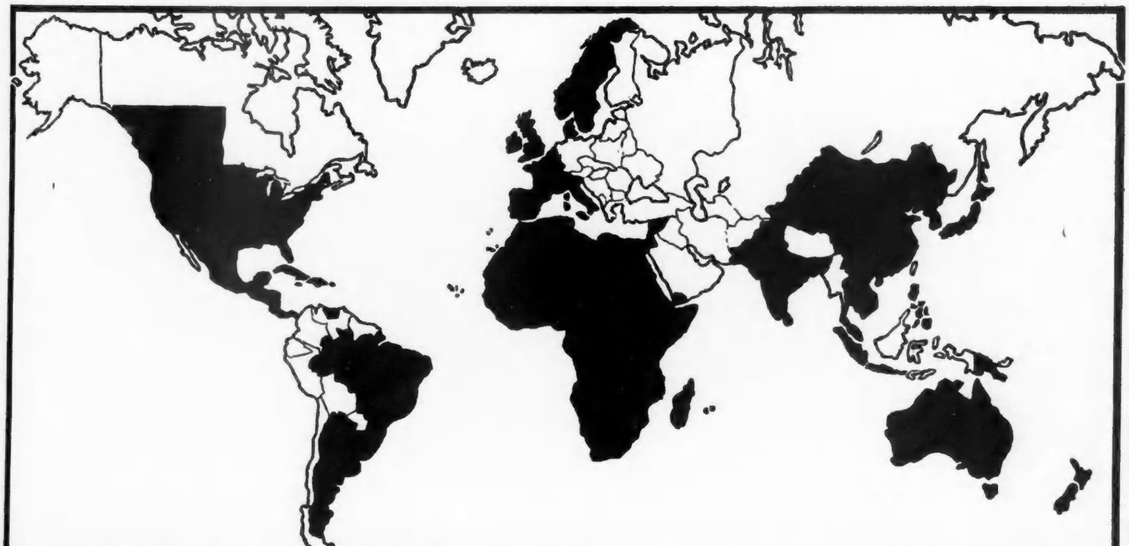


Courtesy, Texaco Star

Where Texaco's products are sold

Signs of Business

AS we enter the hot summer months, it is customary for business to lag; it is counted upon to move listlessly until the arrival of cooler weather reminds people that they need fall and winter clothes, that homes must be made tight against the cold and that the furnace needs fuel. Nor is it until the summer is over that the farmer really begins to ship his crops, bringing a seasonal prosperity to many railroads and other agencies that handle them. This year, however, there is every indication that the usual summer lag is to be less than normal. Automobile assemblies have held up remarkably well; the steel industry is operating at a high rate of capacity; while retail trade will be stimulated at an unusual time by the payment of the soldiers' bonus. A wafted straw indicates the direction of the wind and below will be found a number of straws showing that the wind is still a fair one.

Rising Employment Demand

The industrial recovery, plus the fact that we are becoming more and more a nation of specialists, has brought about a real labor shortage in some lines which affords a striking contrast with the ten or twelve millions said to be unemployed. There is a shortage of skilled mechanics in Detroit; machine tool men everywhere say that they are having trouble finding suitable employees. A number of big companies are now operating training schools. This condition has spread to the white-collar class and college graduates no longer look upon a dismally bleak future. According to the Bureau of Industrial Service of New York City, college graduates this year will find their chances of employment best since 1929 and at starting salaries from 10 to 25 per cent better than a year ago.

Sales Volume Increasing

May was a good month for the ***Bell System*** which registered a net gain of 78,200 stations, an all-time record high for that particular month. The May gain followed a gain of 77,600 in April and brought the increase for the first five months of this year to 357,000, compared with 209,000 for the corresponding previous period. Also good news for ***A. T. & T.'s*** stockholders was the 50-cent dividend declaration by ***Western Electric,*** the first since June, 1931. This means about $3,000,000 to the telephone company, or about 16 cents a share on ***A. T. & T.*** stock.

Western Electric which has just declared the first dividend in five years merely conforms to the improvement being registered by the electrical equipment industry generally. Both ***General Electric*** and ***Westinghouse*** are doing very well. The demand for household electrical equipment has expanded remarkably and further expansion is expected. The companies are working with the Rural Electrification Administration with a view to a standardization and lowering of price that will enable farmers to acquire such household apparatus. Meanwhile, with electric output continuing to forge ahead, the prospect that public utilities will have to enter the market for heavy equipment in earnest becomes steadily less remote.

United Air Lines has just announced that it plans to buy between 15 and 25 forty-passenger, four-motored planes now being designed by Douglas.

Cocoa appears to be in the midst of a runaway bull market. Soaring through the 6-cent market, the commodity has given the New York Cocoa Exchange sessions as exciting as any in its history. All this, however, is but froth which hides a genuine improvement in the demand for the cocoa bean. The strength in demand happens to have coincided with a narrowing supply and this is the cause of the fireworks, but increased consumption is none the less gratifying for all that.

For May the ***Baldwin Locomotive Works*** reports that it and its subsidiaries received orders amounting to $2,861,583, compared with $1,143,726 in May last year. For the first five months of this year the company booked business in the amount of $13,634,804, or not far from twice as much as was booked in the corresponding previous period. Unfilled orders on hand at the end of May, this year, stood at more than $12,000,000, also about twice as large as was the case a year ago.

In connection with the steel industry the chairman of ***Jones & Laughlin Steel*** last week said: "As is generally known, the third quarter of the year usually shows a seasonal decline, but this coming third quarter has every promise of being relatively better than the average."

United States Steel reported that for May its shipments had increased for the third consecutive month, being the highest for any month since June, 1930. This month should register another increase as buyers seek to anticipate the higher prices which go into effect on July 1, next.

With stocks of carbon black down, the business of the two big producers of this commodity, ***Columbian Carbon*** and ***United Carbon,*** is forging ahead. The stocks of both companies have recently been strong and active.

Railway Age reports that orders for freight cars totalled 22,240 for the first five months of this year, or some 3,000 more than for the full year, 1935. No question of it, the roads are in the market in earnest for equipment, track and

Progress

track-fittings. ***Missouri Pacific's*** order for 10,000 tons of rail and fittings is merely an indication of the general trend. Railroad buying will have no small influence on the general business picture in coming months.

Hardware Age reports cumulative gains averaging 13.2% in wholesale hardware sales for the first quarter of this year, compared with the first three months of last. San Francisco, Dallas, Chicago, Cleveland and Atlanta were the districts reporting better than average gains, while New York, Philadelphia and Richmond were below the average.

The upturn in residential building, both new construction and renovation, has resulted in a great increase in the demand for insulating materials of all kinds. This increase seems to have been over and above what one would expect from published reports of construction activity; the American people have been sold on the merits of home insulation and are making their needs known in no uncertain terms. This is naturally redounding to the benefit of such companies as ***Johns-Manville, United States Gypsum,*** while there there are great possibilities for the glass-fiber insulation produced by ***Owens-Illinois Glass.***

Expanding Operations

General Motors begins a $1,000,000 addition to its research laboratory at Detroit.

Allis-Chalmers is planning to spend $1,000,000 on the expansion of its Springfield, Ill., tractor plant. This expenditure will double the plant's capacity.

Westinghouse Electric is planning a new air-conditioned warehouse and office building at the company's Mansfield, Ohio, works. Five stories high, the two lowest having 24-foot ceilings, the new building will contain 305,000 square feet of floor space. It will be of welded steel construction, the welds being made electrically by a method developed by Westinghouse itself.

Purchasing Power Rising

While fully discussed in another section of this issue, the wide gains in retail trade are nevertheless so fundamental a sign of business progress that they can hardly be omitted from this section. ***J. C. Penney, Montgomery Ward*** and ***Spiegel, May, Stern*** enjoyed the highest sales in May of any similar month of their history. The laggard variety store group have begun to show renewed signs of life. Department store gains have varied, although almost all have shown a clearly defined upward trend. The spending of the soldiers' bonus is among the influences that will tend to make this summer much less dull than usual.

The trend of diamond sales and prices is by no means a bad indication of whether or not people have money to spend. Purchasing power has increased quite markedly according to this index, diamond prices having risen some 10 per cent in the past three months to levels that are at least 20 per cent above those of a year ago.

Announcements of increased pay for employees are now becoming almost as common as were decreases four or five years ago. In the automobile industry rates of pay are now higher even than they were in 1929 and there are not lacking indications that they will go higher still. ***Chrysler,*** which paid its workers a special bonus only last February, announced last month a new wage scale for shop workers about 5% higher than thtat previously paid. ***Packard*** has set up a plan providing an annual vacation of a week with pay. The plan also embodies separation pay which becomes operative should employees be cleared from the rolls owing to lack of work and retirement pay for employees with fifteen years or more of service. Many other companies have granted increases in pay and are working on plans similar to Packard's and there is a clearly dfined tendency throughout all industry to give the worker a larger share of the gross receipts of business.

New Products

Much has been heard on the subject of the Diesel replacing the ordinary gasoline motor. It has been claimed that the Diesel would first predominate in tractors, trucks, buses and for other heavy duty purposes, and then gradually take unto itself the passenger automobile. The Diesel may yet do this, but it will not do it without a fight. The Ethyl Gasoline Corp. recently sponsored a test at the University of Nebraska with a gasoline tractor. The machine, converted to high compression, used regular gasoline of 70 octane. Power was doubled, fuel consumption cut one-fourth and the economy of some Diesels was achieved.

Not long ago the public was introduced to beer in cans. It is now to be given the opportunity to try wine in similar containers. It is Californian wine and the retail price is 20 cents for a 12-ounce can. There seems to be no limit to the expansion of the can business.

Kroger Grocery continues to experiment with ***Westinghouse*** apparatus which kills bacteria in footstuffs by subjecting them to strong ultraviolet light. Sheffield Farms, wide-awake subsidiary of National Dairy, is trying the same thing with milk, while a large number of other handlers of foodstuffs are testing the process with their own particular products. Possibilities seem immense.

American Cyanamid is pushing its "Gypsteel" gypsum board, steel-reinforced slabs of gypsum, suitable for roof, walls and floor and which handles about as easily as wood. Here's a chemical company which, if a building boom should get underway, might conceivably find its old interests slipping into a place of minor importance.

Sutherland Paper, having developed a paper container for oil which can be sold at a profit cheaper than the tin containers now being used so widely, is angling for a contract with one or more of the big oil companies.

Railroad Equipment Companies Face Expanding Future

Orders for Rolling Stock and Accessories Indicate Best Year Since 1930.

By Edwin A. Barnes

THE railroad equipment industry is no longer to be counted as a laggard in the progress toward recovery. In the first five months of this year the volume of orders for new rolling stock exceeded the total for the entire 1935 year; orders for new rails in the same period were less than 40,000 tons behind the volume for all of last year; and maintenance and repair expenditures are running better than 15 per cent ahead of last year. These events have been reflected in the earnings of the leading manufacturers of railroad equipment and supplies. According to the Federal Reserve Bank of New York, in the first quarter this year eight equipment companies showed an aggregate of net profits amounting to $1,800,000 as compared with profits of $200,000 shown by the same companies a year ago.

While offhand, this evidence may not seem particularly impressive, it must be remembered that the substantially increased volume of business will be more apparent later as orders on hand are completed.

Indicative of revival in a major industrial field, this evidence is important as such, entitled, however, to be credited with even broader significance on the basis of the sizable contribution which the railway equipment industry may ultimately make to the general recovery movement.

The enlarged volume of equipment purchases this year is almost directly the result of the sustained upturn in car loadings and railroad earnings. Present indications have given rise to the belief that car loadings for 1936 will be the best since 1931 and, in fact, may even exceed the latter year. Competent surveys show that no further considerable rise in car loadings could take place before a serious shortage for some types of railroad equipment would develop. In other words, railway managers are being virtually compelled to take stock of their maintenance and equipment needs, and readily concede that if the railroads regain any reasonable portion of their former traffic volume present equipment facilities are inadequate.

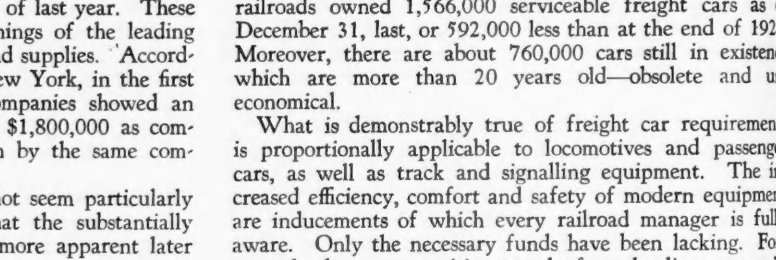
During the depression, the subnormal volume of traffic carried by the railroads permitted them to defer the replacement of unserviceable rolling stock and effect important economies in maintenance. A recent report prepared by Coverdale and Colpitts for the American Railway Car Institute, disclosed that in the six-year period to the end of 1935 a total of 588,000 freight cars had been retired from service. Of these only 144,000 had been replaced. The number of freight cars awaiting repairs at the end of last year amounted to 267,000 as compared with 119,000 at the end of 1929. In all, the railroads owned 1,566,000 serviceable freight cars as of December 31, last, or 592,000 less than at the end of 1929. Moreover, there are about 760,000 cars still in existence which are more than 20 years old—obsolete and uneconomical.

What is demonstrably true of freight car requirements is proportionally applicable to locomotives and passenger cars, as well as track and signalling equipment. The increased efficiency, comfort and safety of modern equipment are inducements of which every railroad manager is fully aware. Only the necessary funds have been lacking. Fortunately, however, a rising trend of car loadings not only stimulates the need for new railroad equipment but strengthens the ability of the railroads to buy and pay for it.

The number of industries and companies which would be important beneficiaries of a revival in railway purchasing power promises to be considerable. The accompanying tabulation is not intended to be fully inclusive but lists only the leading companies, vitally identified with the manufacture of railroad equipment, devices and materials.

American Brake Shoe

American Brake Shoe & Foundry Co. has been one of the few enterprises associated with the railway equipment industry successful in maintaining consistently profitable



operations throughout the depression. In this achievement, the company was partially aided by the fact that its line of products such as brake shoes, track fixtures, castings and forgings were in demand for repair work. Earnings were additionally bolstered by automotive sales, including brake linings, brake shoes, fan belts and radiator hose. In other words, replacement demand contributes the major portion of the company's business, thereby assuring a greater measure of stability. The company, however, can be expected to benefit from the purchase of new equipment, as well.

Leading Manufacturers of Railway Equipment

	Recent Price	Dividend	Yield
American Brake Shoe	47	1.60	3.4
American Car & Fdy	36	None	...
American Locomotive	27	None	...
American Steel Foundries	31	None	...
Baldwin Locomotive	3½	None	...
General Railway Signal	38	1.00	...
Lima Locomotive	28	None	...
N. Y. Air Brake	40	None	...
Poor & Co	16	None	...
Pullman	47	1.50	3.2
Westinghouse Air Brake	40	1.00	2.50

Indicative of the improvement in current operations, American Brake Shoe has on two successive occasions advanced the rate of common dividends. Payments were advanced from 25 cents to 30 cents quarterly, early this year, and more recently were increased to 40 cents. Official earnings reports are not available but it has been estimated that earnings in the first half of the current year were upwards of 90 cents a share, which would compare with 72 cents in the same period last year. For the full 1935 year, profits were equivalent to $1.70 a share on 611,692 shares of common stock, after dividends on the 7 per cent preferred stock. The latter issue is being exchanged for a new 5¼ per cent preferred stock, carrying the privilege of converting into two shares of common until June 30, 1941. The resultant savings in annual dividend requirements will be equal to 27 cents a share on the common. Viewed in the light of the company's good record and favorable prospects, the shares provide one of the more conservative mediums for investment in the railway equipment industry.

American Car & Foundry

Although the report of the American Car & Foundry Co., for the fiscal period ended April 30 last, has not been issued, it has been officially stated that operations were substantially better than in any recent year. The net loss has been estimated at about $500,000, which would mark the best showing by the company since 1931. American Car & Foundry is a foremost manufacturer of freight and passenger cars. In recent years, however, the company has considerably enlarged the scope of its activities to embrace the manufacture of motor trucks and buses, motorboats, gasoline engines, street cars, carburetors and a line of welded metal products. The company also operates a large fleet of tank cars and has a sizable interest in American Locomotive. A well rounded organization, financially strong despite a succession of unprofitable years, and without bank or funded indebtedness, American Car & Foundry should be an important participant in the revival of its major field. Offering more than a hint of current prospects is the fact that recently unfilled orders on the company's books totaled some $15,500,000. No preferred dividends have been paid since 1932, but the senior shares are non-cumulative and with the benefit of further improvement in business and earnings, preferred payments could be resumed promptly. Both the preferred and common issues are worthy speculative vehicles.

American Locomotive

American Locomotive, one of the two leading manufacturers of locomotives, has operated on a severely curtailed basis in recent years, owing to the dearth of orders for new locomotives, and losses have been shown in each year since 1930. Once the railroads are in a position to expand their equipment purchases, the opportunities for American Locomotive are indicated by the fact that more than 60 per cent of the locomotives in operation at the present time are more than 20 years old, while only 10 per cent of them are actually of modern design. Although the company's business volume continues sub-normal, it currently is considerably larger than a year ago. In mid-April orders on the company's books amounted to about $9,500,000, or more than three times greater than a year previous.

No dividends have been paid on American Locomotive common since 1931 and none on the preferred since 1932. Accumulations in unpaid dividends on the 351,961 shares of 7 per cent preferred stock now total $26.50 a share. With the probability, however, that the company may show a profit this year, as against a loss of $1,421,289 in 1935, coupled with its strong financial position, there is basis for anticipating some payment against accumulations. Both the preferred and common issues have merit of a long pull character.

American Steel Foundries

The business of American Steel Foundries promises to respond both to increased purchases of new rolling stock and repairs to old. The company manufactures railroad car and tender trucks, clasp brakes, couplers, bolsters, brake beams, side frames, etc. Twenty-one plants located throughout the country enable the company to render very efficient service to the railroads. The company's losses during the depression period aggregated less than $4,000,000 and were readily absorbed by virtue of the company's strong financial position. A profit of $116,692 in 1935 was equal to $2.11 a share on the 55,267 shares of 7 per cent preferred stock, on which dividends are being paid at the rate of $2 annually. The initial quarter of the current year was the best three-months period for the company since 1930. Net was equal to 37 cents a share on the 970,414 shares of common stock. In the eight years prior to 1931, the com-

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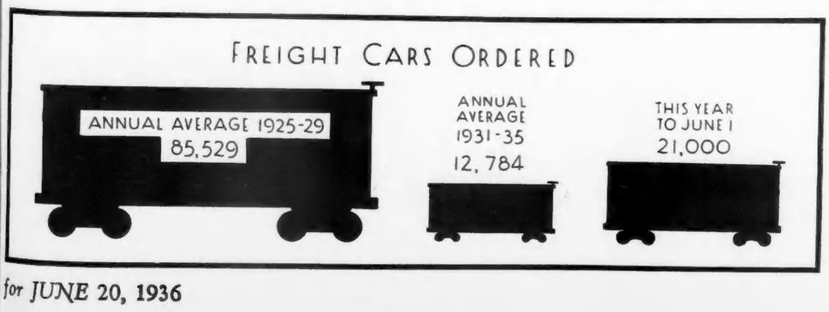

What's Behind the Strength in Merchandising Issues

Contra Seasonal Movement in Retail Trade Spurs Certain Companies

By George W. Mathis

JUDGED from their market action, retail trade stocks have taken a new lease upon life and there is currently more interest in them than has been the case for some time. That this should be so in June when the business is popularly supposed to be entering its period of summer lethargy is remarkable and still more remarkable is it when consideration is given to the fact that so far this year prices generally have shown an unmistakable tendency to decline. Usually retail trade, particularly merchandising, yields lower profits during a period of sinking prices than when prices are moving forward.

The clue to the seeming paradox lies in larger volume and in the fact that wholesale prices have dipped more than retail prices, thereby widening profit margins. As for retail trade being about to enter a period of seasonal dullness, there are indications that the recession this year will be much less severe than is normally the case. This is both because of the gratifying manner in which general business is holding up and because of the spending and lending—call it artificial purchasing power if you will—of the Government. Government disbursements, including the soldiers' bonus, are at a new peak and the injection of this money into the business stream cannot fail to have a stimulating effect, though it be only temporary. It is for these reasons that retail trade has been showing the greatest early-summer activity in years and why it is so generally believed that the coming months will be good on a seasonally adjusted basis, leading up to an extremely active autumn.

Naturally, some lines are exceptions to the generally favorable picture and among those that are doing well there are those that have progressed far ahead of their fellows. The mail order is among the divisions that has done especially well. Sears, Roebuck reported for the sixteen weeks to May 21 sales of $137,000,000, compared with sales of $116,000,000 for the same period last year, a gain of more than 18 per cent. At the same time, sales for the four weeks to May 21 were up nearly 29 per cent, indicating that the year were becoming progressively better. Although it is as yet too early to give great weight to such an estimate, it is believed that Sears' sales for the full year will not be far from the $500,000,000-mark and that earnings of at least $5 a share will be shown on the common stock, with the possibility of considerably more. The gain in sales and the favorable outlook has more than offset the unfavorable inferences to be derived from the fact that prices in the summer "flyer" averaged more than 12 per cent lower than the current spring and summer catalogue. The "flyer" prices are usually lower, but not as much lower as was shown this year.

The latest sales figures of Montgomery Ward confirm the showing made by Sears: indeed, in some respects they went the larger company one better. Montgomery Ward's sales of $30,300,000 for May established an all-time record for the month and the largest percentage gain over the corresponding previous month in 29 months. For the four months to the end of May, the company's sales were almost 16 per cent ahead of the first four months of 1935. The stock of Montgomery Ward has been one of the most active in a generally dull market and has moved to a new high for the year on the news. An extensive discussion of the company will be found in the previous issue of this publication.

Operating nearly 1,500 stores mainly in the Middle West and West, J. C. Penney whose specialties are moderately priced apparel and dry goods has benefited from the same factors that have done so much for Sears, Roebuck and Montgomery Ward. As was the case with Montgomery Ward, Penney has just had the best May in its history, sales for the month this year being 21.6 per cent greater

than in May, 1935. For the first five months of 1936 sales gained more than 12 per cent over last year. Penney has shown a remarkable earning power over the past few years and now that it has neither preferred stock nor funded debt of any kind outstanding, earnings applicable to the common for 1936 may well be more than ever. This year, despite the fact that so far prices have trended downwards, it is thought that the company will be a beneficiary of larger profit margins, inasmuch as wholesale prices have slipped more than retail. This will represent a contrast to the conditions prevailing during the first half of last year when the keenness of competition prevented the company from fully passing along to the consumer the higher cost of its merchandise stock.

The so-called five-and-ten chains have long been laggards in the merchandising section of retail trade. No single cause seems to have been wholly responsible for this; rather it has been a combination of adverse circumstances. In the first place, the five-and-ten chains are predominantly in the industrial east which has received relative less government largesse than rural districts. This has tended to make them laggards in the retail trade recovery. In the second place, they have been meeting increased department store and other competition, while the New Deal sponsored price rise has tended to narrow the lines that could be handled profitably.

It is to circumvent the last two adverse factors that there is a very definite tendency for the five-and-tens to foresake the policies from which they have long derived their name. Some years ago, Woolworth moved the upper limit of its selling price to 20 cents and today in some of the larger stores is handling merchandise up to 95 cents. This evolutionary process foreshadows the time when Woolworth will be a low-priced department store as is already the case with others in the field.

Although Woolworth and its contemporaries have lagged for the reasons mentioned there have lately been signs of betterment which may possibly indicate that the division is about to regain its place. Woolworth's sales for May, 1936, were 7.4 per cent above those of May, last year, which compares with an improvement of only 3.1 per cent for April and 2.1 per cent for the first five months. The experience of S. S. Kresge has been similar: with 726 stores in operation on May 31, last, compared with 735 a year ago, sales for May this year were almost 10 per cent better than those in May, 1935. The gain for the first five months of 1936 was less than 4 per cent.

Turning now to grocery chains, one arrives at a section of retail trade that has been experiencing considerable difficulty over the past few years. The margin of profit here was never very wide and it has been narrowed until recently by wholesale prices rising faster than it was possible to pass along to the consumer at retail. On top of this, there have been increased expenses and increased general taxation to which have been added special discriminatory taxation. Nothing more need be said about general taxation other than that, while it undoubtedly is trending upwards, it should not result in lower profits for industry as a whole until we are further along in the present business cycle. This, however, does not apply to discriminatory chain store taxation which threatens every chain system of distribution and which has been especially directed at the grocery chains.

By "chain store tax" is meant a tax of so much a store which rises rapidly *per store* as the number of stores increase.

Some states go even further than this: Louisiana, for example, is seeking to levy such a tax not according to the number of stores in the state, but upon the number of stores in a system, though they be scattered throughout the other forty-seven states. So serious has the chain store tax menace become that there is evidence of the chains breaking up. Standard Oil (Indiana) which was found by the Supreme Court to be subject to such a tax has been busily selling its outlets to its erstwhile employees, while the Great Atlantic & Pacific Tea Co. has been considering the same thing in those states where this type of legislation has been particularly vicious.

As if this were not enough, the Federal Government now bids fair to do what it can to aid the subsidy of the independent retailer. Bills which have a good chance of becoming law at this session of Congress permit suits to be brought in the Federal Courts in the event that price discrimination should be made in favor of the chain: advertising allowances, "unfair" rebates and price reductions not justified by the saving in distribution expense will be barred. After studying the proceedings against the Goodyear Tire & Rubber Co. which gained the disfavor of the Government in connection with its contract to manufacture tires for Sears, Roebuck, one can only come to the conclusion that the question of price discrimination is something which rests upon opinion, accounting practice, trade practice and half a dozen other factors which are by no means exact sciences. At the best the proposed legislation means that the chains are to be put to the considerable expense of hiring legal talent to combat it and at the worst that they will lose their advantage of large scale buying.

Because sales of foodstuffs proceed more or less evenly throughout depression and boom, the sales figures of chain grocery stores do not have the same significance as do, for example, the sales figures of those which deal in merchandise. It is perhaps because the company had come to question their value that A. & P. decided not long ago that it would publish no more monthly dollar sales and tonnage figures. Other chain stores, however, continue to

Favored Merchandising Issues

	Recent Price	Div.
Montgomery Ward	45	$.80
Sears Roebuck	75	2.00
J. C. Penney	84	3.00+
Best and Co.	54	2.00+
Federated Department Stores	28	1.00
Allied Stores	10	....
May Department Stores	52	2.00

publish monthly such figures; as, for example, Kroger Grocery & Baking, whose sales for the four weeks to May 16 were 1.2 per cent under those of the same period in the previous year. For the twenty weeks to May 16 sales were down exactly the same amount. The average number of stores in operation during the more recent period was 1 per cent less than in 1935.

Safeway, showing an increase of 116 stores, or 3.5 per cent on the total, between May, 1935, and May, 1936, reported an increase of 18.4 per cent in sales for the four weeks to May 16, last, while the increase for twenty weeks to the same date was 18.7 per cent. First National Stores, the fourth largest of the grocery systems, publishes no monthly sales figures. It might be noted, however, in connection with this last company that operations for the most part are carried out in New England, a territory on the whole not receptive to curious legislation of the chain store type.

As a distributor of groceries, though wagon routes predominate over stores, Jewel Tea has been exceptionally successful in recent years. Sales so far this year have been running slightly more than 5 per cent over last, but that the company views the future with considerable confidence may be seen from the fact that it has just declared an extra of 50 cents a share in addition to the regular quarterly disbursement of $1.

One that would keep up to date on the manner in which department store sales are running is hampered by the lack of recent concrete information. The Federal Reserve Board publishes an index of department store sales but the most recent figure is for April and this is only preliminary. Adjusted for seasonal variation, the figure for last April was placed at 81, compared with 73 for April a year ago. This, however, is almost useless for practical purposes; not only is it old, but it shows nothing of the inevitably wide variations between one section of the country and another. Although not official and subject possibly to some inaccuracies, it nevertheless seems better to accept the private surveys that are made regularly among the principal department stores in the different centers. According to these, May was a generally good month for department stores, with sales in the East averaging some 10 per cent better than last year, those of the Chicago district running somewhat higher and sales in a number of smaller Middlewestern and Western cities being as much as 30 per cent higher than last year.

Even though these figures be accepted as wholly accurate, it does not follow necessarily that a store in Chicago where sales gained 15 per cent, or a store in Cincinnati where the gains averaged 30 per cent, will be a more satisfactory commitment than a store in New York where the gain in sales for May was on the whole little more than 10 per cent. This is because of the highly individual character of the various department store companies. One might cite, for example, the fact that the sales of R. H. Macy in New York gained hardly at all last year and earnings were down from $1.95 a share of common for the fifty-three weeks to February, 1935, to $1.83 a share for the 52 weeks to February 1, 1936. On the other hand, Best & Co.'s sales for the company's latest fiscal year were up between 8 per cent and 9 per cent and earnings on the common jumped from $3.14 a share to $3.73 a share. Meanwhile, in Chicago Marshall Field & Co. managed last year, with a substantial increase in sales, to show a profit close to $200,000, compared with a loss of $166,000 in the preceding year. This is admittedly only a modest gain for so large and well established an enterprise but management changes, new policies and aggressive merchandising methods should be able to accelerate the improvement.

Various factors account for the difference in these results. Best did well, benefiting from the demand for better grade merchandise and the fact that it was enabled to widen its profit margin; Macy found that it was a sufferer from the rule that a cash business apparently declines less drastically during the advent of a depression than a charge business and that it is correspondingly a laggard during the recovery phase; Marshall Field was struggling to eliminate its unprofitable manufacturing plants and wholesale business.

This is not to say by any means that these trends both favorable and unfavorable will continue. These companies have been cited only to show the various factors that may affect a department store company and to illustrate the necessity of considering these companies on their own individual merits with only incidental regard to what may be discovered on the general trend of department store sales throughout the district in which they operate.

Other divisions of retail trade not as yet mentioned include drug chains, shoe chains and restaurant chains. The drug chains are doing better; Walgreen's sales for May were more than 11 per cent ahead of last year and for the first five months were up almost 6 per cent; while the sales of Peoples Drug were up 8½ per cent for May and slightly less for the five months. This division, however, is subject to the keenest competition and, while larger profits can be expected from the present upward trend of sales, the gain in net is more likely to be moderate than sensational. Melville Shoe, exemplifying a chain of shoe stores, reported sales for the four weeks to May 9 off 17 per cent from last year, although it is to be noted that last year included Easter Week while this year did not. Sales for the twenty weeks to May 9 were up 12 per cent. Restaurant chains have been making considerable progress, checks averaging larger, a reflection of the increased consumer purchasing power.

It will be seen that on the whole retail trade companies are doing very well and that from what one can see of the business future the outlook is favorable. Under present conditions *our preference would swing towards the mail order and small-department-store chains which are still calculated to be the greatest beneficiaries of the political pampering of rural districts.* Also, they do not suffer from the disadvantage attendant upon a fixed price as, for example, is the case with the five-and-ten chains. Individual department stores, or organizations having a comparatively few

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Opportunities in Stocks With a Future

Group A Stocks With "Earnings Plus"
Group B Stocks With Dynamic Possibilities

SELECTED BY THE MAGAZINE OF WALL STREET STAFF

TO meet various individual requirements, the accompanying table of suggested stocks is divided into two parts. The first seven companies have demonstrated recent earning power and face favorable prospects for continuing and even improving their position. In the main they are more conservative holdings than the second group which is composed of companies which are just turning the corner—whose major gains in earnings position are still before them. On the other hand the second group probably have greater possibilities marketwise.

We have selected two stocks from each group for analysis. Further analyses and suggestions will appear in future issues as opportunities present themselves.

Stocks with Established Earnings Plus Good Prospects

Company	Recent Price	Dividend	Yield
Atlas Powder	62	2.50*	4.0
Union Carbide	88	2.40	2.7
Amer. Smelting Ref. & Min.	78	2.00	2.5
United Carbon	80	2.40	3.0
Crown Cork & Seal	58	1.00	1.7
Westinghouse Electric	115	3.00	2.6
Link Belt	40	1.20	3.0

* Incl. extras.

Stocks with Dynamic Possibilities

Company	Recent Price	Dividend	Yield
Mack Trucks	33	1.00	3.0
Columbia Gas & Elec	20	0.20(a)	...
New York Central	36	None	...
Crucible Steel	32	None	...
Superheater	31	0.50	1.6

(a) Paid this year.

Atlas Powder Co.

Atlas Powder Co. is one of three major companies engaging in the manufacture of industrial explosives and

Earnings Per Share 1st 3 mos. 1935	1st 3 mos. 1936	Recent Price	Div.	Yield
0.48	1.01	62	2.50*	4.0

*Incl. extras.

the company's annual producing capacity of 108,500,000 pounds of dynamite accounts for about 20 of the output for the entire industry. In addition, the company manufactures cellulose products such as lacquers, artificial leather, etc., from various chemical by-products. These account for about one-fourth of total sales annually. Last year marked the company's entry into the production and sale of organic chemicals, by the production of two types of alcohols having commercial possibilities in the manufacture of textiles, paper, leather synthetic resins and pharmaceutical products.

The primary nature of the company's business identifies it closely with such industries as metal mining, quarrying, construction and railway, which in the aggregate account for about 80 per cent of dynamite sales. The coal mining industry accounts for only about 10 per cent of dynamite sales but utilizes about 85 per cent of the output of blasting powder. Despite its chemical activities, Atlas Powder, therefore, is more in the heavy-industry category. Its depression record, however, was superior to that of many companies in that classification.

The company was able to show a net profit in each year through the depression. In 1932, there was an operating loss of $114,263, which was wholly offset by "other income" in the amount of $156,335. Dividends on the 6 per cent preferred shares were continued without interruption, while 1933 was the only year in which common stockholders had to forego dividends. In 1934 earnings recovered to $1,124,722 from the level of $709,334 in 1933, results in the two years being equal to $2.49 and 74 cents a share respectively on the common, after preferred dividends. Dividends were resumed on the common in 1934 and payments both in that year and in 1935 amounted to $2 a share. Early this year, the company declared a 25-cent extra dividend, the first extra since 1930, and more recently another similar payment was announced.

Last year the company's earnings amounted to $1,161,170, equal to $2.81 a share on the common. The improvement was even more pronounced in the initial three months this year. Net profit, after preferred dividends, was equal to $1.01 a share as compared with 48 cents a share earned in the same months of 1935, while for the twelve months to March 31, last, net was equal to $3.34 for the common. At the end of March, the company's financial position revealed current assests of

$9,208,036, including $5,000,000 in cash and marketable securities, as compared with current liabilities of less than $1,000,000. The directors propose to reduce the preferred dividend from 6% to 5%, compensating preferred stockholders by making each share of preferred convertible into 1 1/3 shares of common and making the senior issue non-callable prior to August 1, 1941. This move will reduce dividend requirements ahead of common stock earnings. Recently quoted at 62, Atlas Powder common yields about 4 per cent, if extra dividends are included. With ample finances, plus a strong upward trend in earnings, the prospect of additional extras is a good one and the shares seem a worthy choice both for income and profit.

Link Belt Co.

Link Belt Co. has been making excellent progress toward recovery and both sales and earnings have recorded impressive gains since 1932. Last year, for example, sales of more than $14,000,000 compared with about $7,705,000 in 1933. Common stock dividends were increased earlier this year and at

Earnings Per Share

1st 3 mos. 1935	1st 3 mos. 1936	Recent Price	Div.	Yield
0.37	0.21	40	1.20	3.0

the end of 1935 an extra dividend of 50 cents a share was paid.

Originally, the Link Belt Co. was engaged exclusively in the manufacture of chain link belts, and while this phase of the company's activities still accounts for about 10 per cent of the total volume of business, its activities in other directions have been greatly expanded. The company now manufactures all types of material-handling machinery, locomotive cranes, gasoline crawler cranes and shovels, grain car unloaders and bridge tramways for unloading vessels, oil pumping units, coal tipples and a variety of other equipment used in practically all sorts of manufacturing operations. The company's equipment is designed primarily for increasing the efficiency of handling industrial materials and it was a natural step for the company to enter into the manufacture of an automatic stoker to be used in conjunction with home heating units burning coal. Despite the competition from oil burners, gas units and other heating devices, automatic stokers have become increasingly popular among home-owners and builders and there appears to be a good possibility that this new field may prove unexpectedly lucrative for Link Belt.

Notwithstanding the highly specialized character of the company's business, the company has given a very good account of itself under adverse conditions. Sales and earnings suffered in the depression, but well fortified with liquid resources and a modest capitalization, the company's record of uninterrupted dividend payments dating back to 1907 was preserved intact. The lowest annual dividend on the present common stock was in 1934 when shareholders received only 40 cents, or one-third of the present annual rate, exclusive of extras.

Capitalization consists of 35,142 shares of 6½ per cent preferred stock of which 2,285 shares were held in the company's treasury, and 709,177 shares of common stock, including 33,604 shares held by the company. Current assets as of March 31, last, amounted to $12,430,613, while current liabilities were only $1,141,466.

Last year earnings available on the company's outstanding common stock were equal to $1.28 a share, the best showing since 1930, and in the first quarter of this year profits amounted to 37 cents, as compared with 21 cents in the corresponding months of 1935. This current rate of gain may readily be sustained throughout the year for there is every indication that the tendency toward plant modernization and equipment replacement will proceed unabated, barring any serious disruption in the spirit of greater confidence now manifest. Further, the company has an opportunity to participate in growing revival of home construction. On the whole, therefor, the shares at 40, although obviously looking ahead somewhat, possess distinct possibilities for price appreciation and increased dividend returns.

Mack Trucks, Inc.

Mack Trucks, Inc., has for many years been one of the leading manufacturers of heavy-duty trucks and the company's "Bull Dog" models are a familiar sight on highways throughout the country. Despite its established trade position, Mack Trucks has been compelled to wage a keen competitive battle, particularly in recent years. Business conditions generally have been only partially responsible for this condition and it has been intensified by the invasion of other manufacturers, notably makers of passenger cars, into the truck field, and the successful development of lighter weight trucks selling at substantially lower prices. Manufacturers of passenger automobiles have been encouraged in their encroachmant upon the field formerly held by independent truck manufacturers by their ability to turn out light trucks with only slight alterations in passenger car models. Further, they had the advantage of large sales organizations, plus the fact that in recent years the versatility of the light truck has been increased by the use of trailers and oversize bodies.

The effect of this situation on the earnings of Mack has been only too apparent. The peak of the company's earnings was attained more than ten years ago, in 1925. Sales in that year

Earnings Per Share

1st 3 mos. 1935	1st 3 mos. 1936	Recent Price	Div.	Yield
Nil	0.18	33	1.00	3.0

totaled $68,912,000 and net income amounted to $9,500,000. While the sales volume in the following year was slightly higher, profits were lower. Even in the boom year 1929, the company's sales were about $11,000,000 lower than in 1925.

In its annual report covering 1935 operations, the company acknowledged this state of affairs and, moreover, set forth what it proposed to do about it. As a result, the company's 1936 line of trucks has been enlarged by the addition of seven new models of trucks and buses which ranging from a ½-ton truck priced at $535, to a 2-3-ton truck at $1,035. The buses will be available in three models with a base price of $2,700. This line is known as the Mack, Jr., and will give the company full representation in the lower priced group. Mack has arranged with Reo Motor Car Co. to manufacture the Mack, Jr., units.

Prior to 1934, Mack reported deficits in each of the three preceding years. In that year, however, operations were restored to a profitable basis, net income totaling $17,133, or the equivalent of 3 cents a share on the outstanding stock. Again in 1935, operations were unprofitable and a deficit of $395,616 was reported, after all charges, but in the final quarter of last year both sales and earnings of the company showed a marked turn for the better, which has carried over into the current year with even greater effect. A profit of $107,477 was shown in the first three months, equal to 18 cents a share, as compared with a loss in the same months of 1935. In the first four months this year the company has sold about $1,500,000 of its Mack Juniors and in the month of May, booked orders for $1,750,000 worth of buses, in addition to several sizable truck orders. Nothwithstanding the

(*Please turn to page 323*)

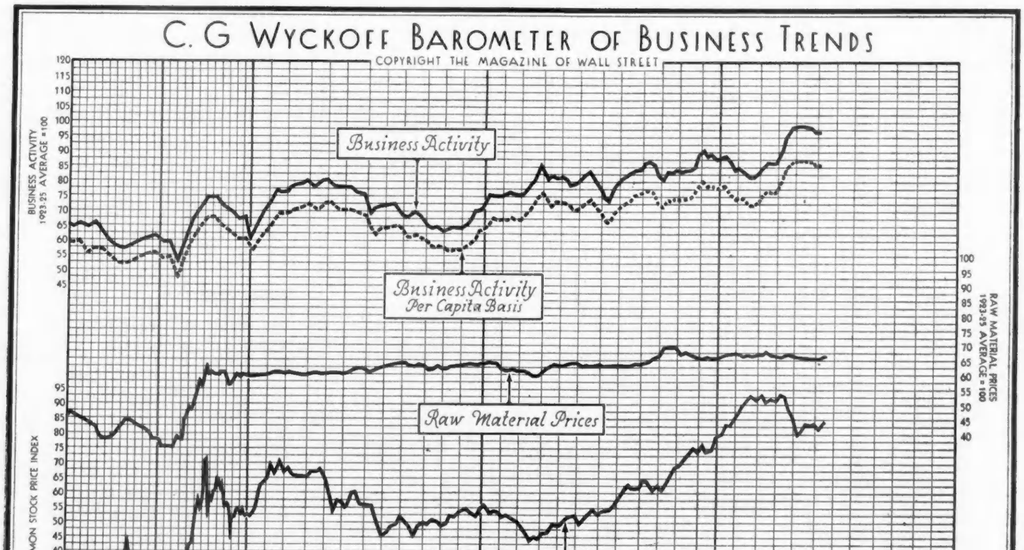
The Business Analyst

— Seasonal Recession Mild
— Retail Trade Rising
— Motor Profits Spurt
— Steel Near Summer Peak
— Gasoline Surplus Reduced

NOW that it has been definitely decided to hold the automobile show in early November again this year, it may be assumed for business index purposes that the pattern of seasonal variation in production rates for that industry has become acclimated to early introduction of new models; so that, with the current issue, we have revised the indexes of Business Activity to conform with the new norm of seasonal variation. The only changes necessitated by this new standard were in that portion of the two curves which extended from August 1, 1935, to February 1, 1936; since the seasonal pattern for other months appears to have been little altered by the two months' advance in automotive production schedules. Comparison of the revised curves with those hitherto published will disclose that the principal consequence of the adjustment has been to fill in the valley previously shown for the summer of 1935, and to grade down the sharp December peak which had been caused by comparing the new high rate of motor car assemblies in December with the extremely low rate of production which, in former years, had always been normal for that month. This redistribution of business activity has not altered the year's total business volume; since summer gained what autumn lost through the transfer.

Having made these adjustments, it develops that the best point yet reached on the recovery was during the second week of March, this year, when the per capita index of business activity reached 87.6% of normal: not during the third week of December, 1935, as formerly shown. Since then, there has been a mild recession in which practically all components of the index have participated, with the notable exception of steel, where operations have fallen off at a somewhat less than normal seasonal rate. On a per capita basis, the country is now producing new wealth at the annual rate of about 86% of normal, which is equivalent (taking the 1923-5 average production at $643 per capita, and allowing for a 9.5% decline in the general price level) to an average income of around $500 per annum for each man, woman and child, in dollars of present purchasing power. This represents a gain of about 20% over the corresponding period a year ago.

As there is often a considerable time lag in getting the national income into circulation, improvement in retail trade is not yet so pronounced as the gain in production; though practically all lines of merchandise are moving with the greatest early velocity in years. In the New York metropolitan area, for example, department store sales were up only 10.9% in April, as compared with April, 1935; but recent increases are estimated at more than 15%. It is anticipated that even the present very favorable showing will be surpassed soon under the stimulus of heavy soldier bonus expenditures and the swelling stream of dividend disbursements which were 25% greater for April than during April of last year. Chain store sales for May paint an



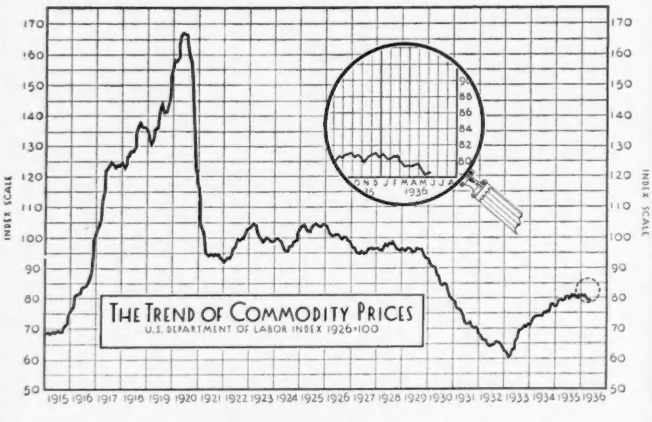
equally glowing picture with Montgomery Ward reporting the biggest gross for any like month in the company's history. Of like tenor is the recently released Bell System report disclosing the greatest increase in stations for any May on record.

One cause of the lag between production and consumer expenditures this year appears in the circumstance that many concerns which paid out more than they earned during the depression are retaining a portion of expanding profits to rebuild depleted surpluses. In April, for instance, business payrolls were only 8% larger than for April, 1935, though total business activity increased 18%. During May, the country's physical volume of production gained 22.5% over the corresponding month of 1935.

The Trend of Major Industries

STEEL—With consumers in some lines hastening to stock up before higher prices go into effect on July 1, steel mill operations are expanding at a time when some slowing down normally takes place, and experienced observers would not be surprised to find the industry operating at a new recovery peak before the end of June. At present writing the steel ingot rate is over 70% higher than a year ago and, even at current prices for finished products, it is quite certain that second quarter earnings will make extremely favorable comparison with the corresponding period of 1935. Considerable slackening in output, however, is expected to take place during the first half of the third quarter, the extent of the recession depending upon the amount of forward buying during the current month. No price increases have been made in wire, tubular goods, nails, rails nor tin plate; though it is hinted that the latter may be advanced before the fourth quarter when the canning season is over. Tin plate mills continue to operate at 100% of capacity and are turning out the largest tonnage on record in view of the considerable increase in capacity since 1929, when the previous peak was reached.

METALS—Quiet again reigns in the domestic silver market and the price for foreign silver at New York has settled back to the old 44¾-cent level. The price paid for the output of domestic mines is however so liberal that several of the larger companies are paying generous extras to stockholders. In spite of a 20% expansion in consumption during the 12 months ended March 31, tin prices have declined sharply since our last issue in response to reports of doubts as to renewal this autumn of the international agreement which provides for a control of world production of that metal. United States consumption of copper in May was heavier than during April, contrary to the usual seasonal trend. Lead and zinc prices are unchanged in moderately active markets. With the recovery in construction supporting volume.



Changes in Major Commodity Price Group for the Fortnight Ended June 6, 1936

Farm Products	up 1.5	Metals	no change
Foods	up 1.2	Building materials	up 0.1
Hides and leather	up 0.3	Chemicals	no change
Textiles	down 0.1	Housefurnishings	up 0.1
Fuel and lighting	down 0.1	Miscellaneous	down 0.1

PETROLEUM—Reductions during the past fortnight in both the output of crude and the volume of gasoline in storage have somewhat lessened the threat to prices caused by overproduction. In fact, consumption has taken such a sharp spurt during the past month that gasoline stocks are down to the lowest level since mid-February and less than 10% above last year at this season.

ELECTRIC POWER—With an estimated increase of 13% in the use of electric power during the first six months, as compared with the corresponding period of 1935, it is expected that gross receipts of the industry will show a gain of 5½%, and that the increase in net earnings may exceed 7%.

AUTOMOBILES—It is estimated that profits of the six largest passenger car producers, excluding Ford, will be 50% greater for the present quarter than during the second quarter of last year.

LIQUOR—It seems possible that second quarter earnings of leading distillers may equal those of the like period of 1935. However, with whisky production now exceeding consumption by about four to one, and stocks of aging liquor approaching pre-prohibition levels, it is becoming difficult to maintain prices. Some authorities believe that substantial price reductions would so stimulate consumption as to benefit earnings.

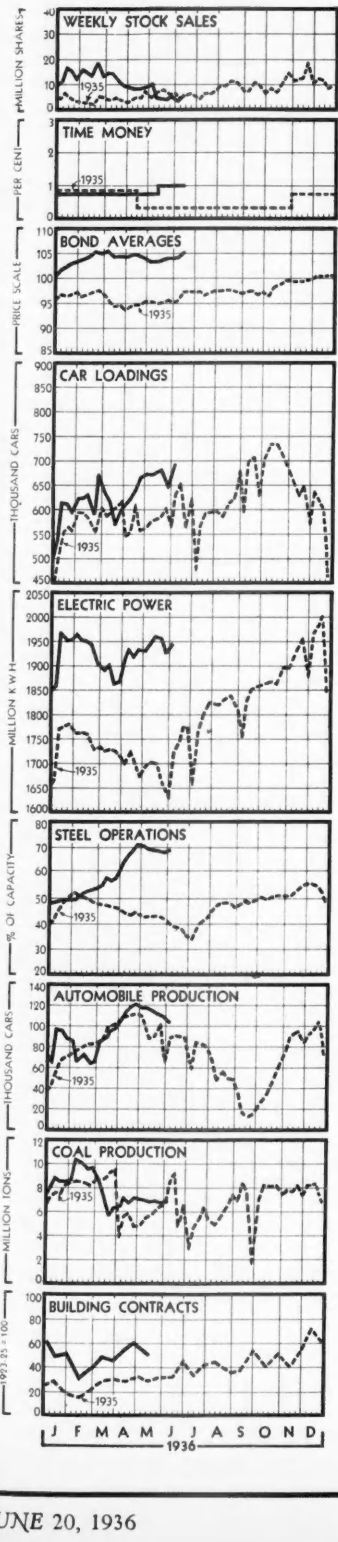
CARBON BLACK—Sales of carbon black are running at the highest level on record and inventories are down to only a three-months' supply, against a four-months' supply last year. It is anticipated that second quarter earnings of the two leading companies in the field will be even better than profits reported for the second quarter of 1935.

Conclusion

By far the most encouraging aspect of recent business developments has been the pronounced expansion in retail trade throughout the country, which promises to gain even greater headway this summer with the expenditure of soldier bonuses and expanding dividend disbursements. Production, as reflected in our Business Activity Index, has receded a little more than seasonally during the past few weeks; but no decline of importance seems probable so long as corporate, Government and private expenditures continue on their present and prospective scale. The tendency this year for industry to produce more than it pays out, leaving the Government to meet the deficiency, has however been partly responsible for some weakening in commodity prices — a not unfavorable development in times of expanding business activity, since cheaper goods promote trade and spur recovery.

The Magazine of Wall Street's Indicators

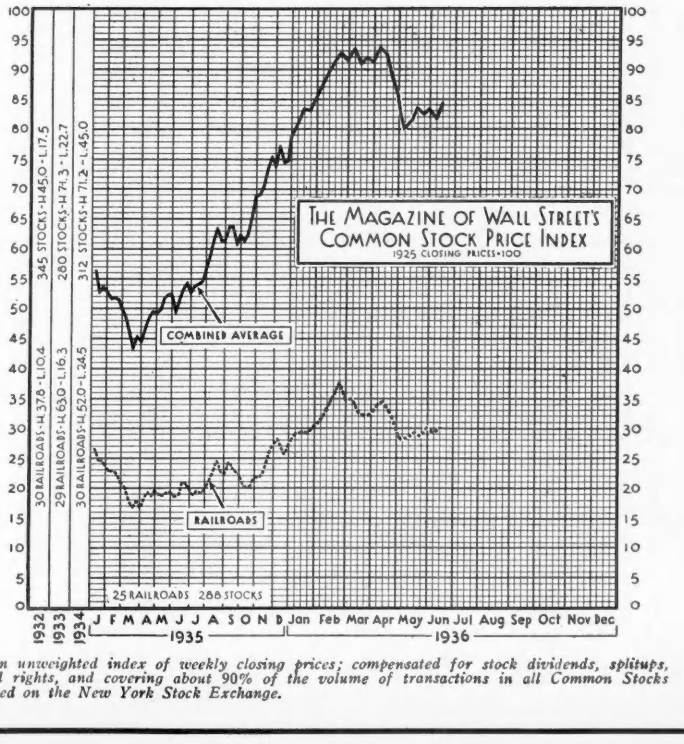
Business Indexes



Common Stock Price Index

1935 Indexes High	1935 Indexes Low	1935 Indexes Close	Number of Issues	(1925 Close—100)	1936 Indexes High	1936 Indexes Low	May 30	June 6	June 13
78.6	43.0	78.4	295	COMBINED AVERAGE	93.9	78.4	83.4	81.7	84.4
119.5	64.1	113.4	5	Agricultural Implements	186.9	113.4	174.6	167.5	181.3
41.9	17.8	41.6	6	Amusements	50.8	40.1	40.1x	40.5	40.6
116.9	44.6	116.9	14	Automobile Accessories	142.2	116.8	123.5	119.3	121.9
17.7	8.8	17.7	13	Automobiles	24.2	17.7	20.0	19.8	20.7
108.2	41.3	108.2	7	Aviation (1927 Cl.—100)	141.0	104.3	118.8	113.4	118.0
14.7	7.9	14.7	3	Baking (1926 Cl.—100)	17.6	12.6	12.6	12.8	13.9
325.0	184.9	318.6	2	Bot. & Cks. ('32 Cl.–100)	399.6	318.6	363.5	364.8	376.0
209.9	113.7	209.9	3	Business Machines	251.0	207.4	212.1	207.4x	213.1
316.6	226.1	287.4	2	Cans	287.4	250.9	265.6	262.5	267.9
202.7	144.6	195.6	8	Chemicals	224.1	187.5	191.9	187.5x	190.8
42.8	22.6	42.8	10	Construction	62.9	42.8	53.6	53.0	54.2
88.6	35.7	87.9	6	Copper & Brass	123.6	87.9	110.9	107.6	109.0
39.3	27.5	39.3	2	Dairy Products	44.1	39.3	41.7	41.8	43.0
26.6	16.0	23.5	9	Department Stores	27.7	23.3	26.9	26.8	27.6
87.6	56.1	85.8	7	Drugs & Toilet Articles	98.9	75.3	76.4	75.8	75.8
270.0	211.2	231.8	2	Finance Companies	319.2	227.2	319.2H	317.3	314.5
66.2	51.8	62.0	7	Food Brands	70.1	62.0	64.5	63.0	66.0
56.4	46.2	47.1	4	Food Stores	50.3	42.2	43.7	44.0	45.3
65.7	32.1	65.7	3	Furniture & Floor Cover	76.9	65.7	70.8	68.3	71.4
1209.7	990.2	1116.0	3	Gold Mining	1296.9	1116.0	1288.0	1280.0	1276.8
46.8	35.3	46.8	5	Household Equipment	54.4	46.5	48.6	47.1	48.7
38.7	17.0	38.3	5	Investment Trusts	45.3	36.6	38.0	37.3	39.4
359.0	223.6	323.8	2	Liquor (1932 Cl.—100)	333.8	265.2	280.9	274.5	265.2x
139.0	65.1	139.0	9	Machinery	160.8	134.7	145.0	139.8	144.8
67.3	36.0	65.9	2	Mail Order	76.5	61.3	73.1	71.8	76.5H
63.0	34.5	62.4	4	Meat Packing	83.9	61.6	62.5	61.6x	62.9
183.6	109.4	169.5	10	Metal Mining & Smelting	189.4	162.1	166.0	163.7	165.5
97.2	51.3	97.2	24	Petroleum	122.3	97.2	100.8	100.4	101.3
67.2	23.0	67.2	18	Public Utilities	83.8	67.2	78.2	75.5	81.3
33.0	15.9	31.5	3	Radio (1927—100)	35.4	26.7	28.2	27.7	29.9
55.7	29.3	55.7	8	Railroad Equipment	73.8	52.5	59.3	57.4	58.9
28.8	16.5	27.3	24	Railroads	37.6	27.3	30.1	29.0	30.2
16.8	5.2	16.1	3	Realty	22.9	13.4	14.1	13.7	14.4
76.4	28.5	76.4	3	Shipbuilding	87.6	62.7	72.3	67.5	69.2
88.1	37.6	88.1	11	Steel & Iron	110.7	85.2	92.3	88.2	91.6
30.4	21.1	30.4	5	Sugar	41.3	29.8	36.3	35.5	36.2
153.6	122.5	153.6	2	Sulphur	175.6	153.4	158.2	157.7	158.2
78.3	34.2	77.5	3	Telephone & Telegraph	97.4	76.6	81.8	80.8	83.8
73.5	34.7	70.5	8	Textiles	81.4	62.0	63.1	62.0x	64.7
10.6	6.0	10.6	4	Tires & Rubber	15.9	10.6	14.3	13.6	14.3
101.8	77.2	96.5	4	Tobacco	100.2	87.2	91.3	91.8	93.8
85.4	51.0	72.1	4	Traction	76.2	61.0	64.7	65.0	66.8
282.8	219.7	259.5	4	Variety Stores	267.8	232.5	239.9	239.5	248.8

H—New HIGH record since 1931. x—New LOW this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, splitups, and rights, and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.

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GENERAL AMERICAN TRANSPORTATION CORP.

After watching General American Transportation sell off from a high of 63, I feel it now represents a good buy, considering the railroad revival and consequent increased equipment purchases. What do you think of such a purchase? Do you concur with my views?—M. B. C., Providence, R. I.

Operating through subsidiaries, General American Transportation Corp. is the leading car leasing organization in the country and is also engaged to a lesser extent in the manufacture and repair of all types of freight cars. The company's fleet of rolling stock consists of some 54,000 units, of which about half are tank cars and the remainder refrigerator cars and specialty cars. The most important division of the business is that of handling food shipments and it was largely because of this fact that the company's earnings throughout the depression years have been relatively well maintained. Even in the generally poor year, 1932, the company reported $2.20 a share on its capital stock. Since that year the down-trend which began in 1930 has been reversed although last year's per share results fell off somewhat. This was due largely to a slight increase in the number of shares outstanding and higher interest charges on equipment notes, since gross income actually increased. In the first quarter of the current year, the company recorded net income of $308,025, equal to 36 cents a share, against $242,701 or 30 cents a share in the March quarter of 1935. In order to finance the purchase of rolling stock from Pressed Steel Car and to obtain capital for possible acquisition of stock in that company, General American issued rights to its own stockholders early this year from which there was realized $7,201,179. After allowing for the issuance of 10,000 shares of stock in January, 1936, in partial payment for a fleet of tank cars, and the sale of 169,600 shares to stockholders under the rights referred to above, capital stock outstanding amounts to roughly 1,017,000 shares. While this increase in capital naturally will tend to dilute per share earning power, lower interest charges through the retirement of serial equipment notes and the indicated improvement in operations should prove an offset. The car manufacturing division of the company operated unprofitably from 1931 through 1933, but this branch of the business gives promise of very worth while expansion if the trend toward increased railroad revenues continues and the carriers are thereby placed in a position to purchase needed rolling stock. While we do not look for improvement in earning power to the extent which may be witnessed by the now more depressed strictly equipment manufacturers, we do feel that the shares will prove a profitable holding, both from the standpoint of income and appreciation, over a reasonable period of time.

MATHIESON ALKALI WORKS, INC.

Mathieson Alkali reported earnings of 30 cents a share during the first quarter of this year, which, of course, does not meet the dividend requirement based on the present rate of $1.50 a year. As the income from 300 shares of this stock is important to me please let me know the outlook and whether the dividend is in danger.—F. E. F., Passaic, N. J.

As you point out, earnings of Mathieson Alkali Works, Inc., for the initial quarter of the current year were somewhat below the common dividend requirement. Nevertheless, we do not look for any downward revision in the present $1.50 annual dividend rate, since recent reports are to the effect that so far in the second quarter there has been a decided improvement in the company's business. Moreover, although earnings in the first quarter equalled only 30 cents a share on the common stock as against 37 cents a share in the March quarter of 1935, there was actually some 10% improvement in operating earnings during the period. The failure to carry this through to net was due to the fact that depreciation charges were increased over 30% as compared with a year earlier. Moreover, the company succeeded in increasing operating income despite the fact that weather conditions adversely affected production at both the Niagara Falls, N. Y., and Saltville,

(Please turn to page 313)

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New York Stock Exchange

Rails

	1934		1935		1936		Last Sale	Div'd $ Per
A	High	Low	High	Low	High	Low	6/10/36	Share
Atchison	74¾	45¼	60	35¾	86⅝	59	72½	†2
Atlantic Coast Line	54¼	24½	37¼	19½	35¾	21⅝	24⅞	..
B								
Baltimore & Ohio	34½	12¾	18	7½	24¼	15⅞	18⅝	..
Brooklyn-Manhattan Transit	44⅞	28¼	46¾	36½	50½	40¼	46⅞	3
C								
Canadian Pacific	18¼	10⅞	13¾	8⅝	16	10⅞	12⅝	..
Chesapeake & Ohio	48⅝	39½	53¼	37⅛	61	51	58½	2.80
C. M. & St. Paul & Pacific	8½	2	3	¼	2⅞	1½	1⅝	..
Chicago & Northwestern	15	3½	5⅝	1⅜	4⅞	2½	2⅞	..
Chicago, Rock Is. & Pacific	6¼	1⅜	2⅝	¾	3	1½	1¾	..
D								
Delaware & Hudson	73½	35	43½	23½	52	36¾	41¼	..
Delaware, Lack & West	33¾	14	19⅛	11	23⅛	14⅞	16½	..
E								
Erie R. R	24⅞	9⅜	14	7⅛	17⅝	11	12¾	..
G								
Great Northern Pfd	32½	12¼	35⅛	9⅝	44	32¼	41⅜	..
H								
Hudson & Manhattan	12⅛	4	5½	2¾	5⅞	3⅛	3¼	..
Illinois Central	38⅞	13⅝	22¼	9½	28⅞	18⅝	21⅝	..
Interborough Rapid Transit	17½	5¼	23⅝	8¾	18⅞	11½	13⅝	..
K								
Kansas City Southern	19¾	6⅝	14½	3¾	26	13	21⅛	..
L								
Lehigh Valley	21¼	9½	11½	5	14⅜	8½	10⅛	..
Louisville & Nashville	62½	37¾	64¾	34	77½	57½	69½	‡2
M								
Mo., Kansas & Texas	14⅞	4⅜	6⅜	2½	9⅝	5½	8⅝	..
Missouri Pacific	6	1½	3	1	4	2⅛	2¼	..
N								
New York Central	45¼	18⅜	29¾	12¼	42¼	27¾	35¾	..
N. Y., Chic. & St. Louis	26⅞	9	19	6	35½	17¾	29¼	..
N. Y., N. H. & Hartford	24⅛	6	8½	2⅝	5⅝	3	3⅛	..
Norfolk & Western	187	161	218	158	237½	210	235½	*8
Northern Pacific	36¼	14½	25¼	13⅛	36¾	24⅛	30⅛	..
P								
Pennsylvania	39⅛	20⅛	32½	17¼	39	28¼	31	‡1
Pere Marquette	38	12	34½	9¼	35⅞	25⅛	35⅞	..
Pittsburgh & W. Va	27	10	25	6⅞	41¼	21	33½	..
R								
Reading	56⅜	35⅛	43⅛	29⅞	48⅜	35½	39	2
S								
St. Louis-Southwestern	20	8	14	7¾	12¾	7⅞	9½	..
Southern Pacific	33¾	14⅞	25½	12¾	38⅞	23½	33⅛	..
Southern Railway	36½	11½	16½	5½	20⅝	12¾	16	..
U								
Union Pacific	133⅞	90	111½	82½	138¼	108½	128	6
W								
Western Maryland	17¼	7⅛	10⅛	5½	12⅛	8⅛	9⅛	..
Western Pacific	8½	2⅝	3⅜	1⅛	4	2	2¼	..

Industrials and Miscellaneous

	1934		1935		1936		Last Sale	Div'd $ Per
A	High	Low	High	Low	High	Low	6/10/36	Share
Adams-Millis	34⅞	16	37¼	38	35¾	17⅞	18⅝	‡.75
Air Reduction	113	91¾	173	104¾	66½	58	66	*1
Alaska Juneau	23⅞	16⅝	20⅛	13¼	17⅜	13¼	14¾	*.60
Allegheny Steel	23⅛	15	32	21	39¼	29¼	30⅞	1
Allied Chemical & Dye	160¾	115⅛	173	125	208	157	197	6
Allis Chalmers Mfg	23⅜	10⅜	33⅞	12	50½	35⅜	45¾	1
Alpha Portland Cement	20⅛	11½	22¾	14	28½	19¾	23¼	1
Amerada	55⅝	39	80	48½	125½	75	93½	2
Amer. Agric. Chemical (Del.)	48	25¼	57¾	41½	63¼	50	51	3
American Bank Note	25¼	11½	47¾	13½	55½	42⅛	43¾	1
Amer. Brake Shoe & Fdy	38	19½	42½	21	50⅞	40	46⅞	1.60
American Can	114¾	90¼	149⅝	110	134½	115¾	129¼	*4
Amer. Car & Fdy	33⅞	12	33⅞	10	41	30	36	..
American Chicle	70⅝	46¼	96	66	95½	87⅝	89	4
American & Foreign Power	13¾	3⅞	9¼	2	9¾	6½	7½	..
Amer. Power & Light	12¼	3	9⅝	1½	13½	7½	11⅞	..
Amer. Radiator & S. S	17⅝	10	25⅛	10½	27⅜	18¾	21	..
Amer. Rolling Mill	28¼	13½	32⅜	15¾	34	25¾	27⅛	1.20
Amer. Smelting & Refining	51¼	30¼	64⅝	31⅝	91½	56¾	77½	2
Amer. Steel Foundries	26½	10⅛	25¼	12	33⅜	20½	31	..
Amer. Sugar Refining	72	46	70½	50⅛	61⅛	48¼	52⅛	2
Amer. Tel. & Tel	125¼	100⅛	160½	98⅞	178	149½	168½	9
Amer. Tob. B	89	67	107	74¾	104	88½	95¾	5
Amer. Water Works & Elec	27⅝	12⅝	22¾	7⅛	25¼	19⅛	23½	..
Amer. Woolen Pfd	83¾	36	68¾	35½	70¾	54¾	66	2
Anaconda Copper Mining	17¾	10	30	8	39¾	28	33½	‡.50
Armour Co. of Ill	6¾	3½	6⅛	3¼	7⅜	4⅝	4¾	..
Atlantic Refining	35¼	21½	28	20½	35⅛	26⅝	28½	1
Auburn Auto	57⅜	16½	45½	15	54¼	26⅝	28½	..
Aviation Corp. Del	10¾	3¾	5¼	2¾	7¾	4⅝	5½	..
B								
Baldwin Loco. Works	16	4½	6⅝	1½	6⅞	3	3⅜	..
Bayuk Cigar	45¾	23	66¾	37½	18¾	17	17½	.75
Beatrice Creamery	19¾	10¼	20⅛	14	26	18	23¼	†.50
Beech-Nut Packing	76⅝	58	95	72	96	85	96	*3
Bendix Aviation	23⅞	9¾	24½	11⅞	31¾	21⅝	27¾	1

Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1934 High	1934 Low	1935 High	1935 Low	1936 High	1936 Low	Last Sale 6/10/36	Div'd $ Per Share
B								
Best & Co.	40	26	57½	34	57¼	48	54¼	*2
Bethlehem Steel	49½	24⅛	52	21⅝	63¾	45¾	52¾	..
Bohn Aluminum	68¾	44½	59⅞	39⅝	63⅛	46¼	49⅝	3
Borden Company	28¼	19⅞	27¾	21	30¼	25⅝	28⅜	1.60
Borg Warner	31⅜	16⅛	70½	28¼	83½	64	76	3
Briggs Mfg	28⅜	12	55⅜	24½	64⅞	43¼	47¼	*2
Bristol-Meyers	37½	26	42	30⅜	48½	41	43½	*2
Burroughs Adding Machine	19⅜	10½	28	13¼	33¼	25	25¾	*.60
Byers & Co. (A. M.)	32¾	13¾	20⅝	11⅜	25¼	16½	17¼	..
C								
California Packing	44⅜	18¾	42½	30½	37⅝	30¼	31¼	1.50
Canada Dry Ginger Ale	29½	12½	17⅝	8⅛	16½	10⅜	14⅝	..
Case, J. L	86¾	35	111¼	45¾	172¾	92½	164	..
Caterpillar Tractor	38¾	23	60	36½	79	54¾	75⅛	2
Celanese Corp	44⅞	17⅛	35⅜	19½	32¼	21¾	23¼	‡.50
Cerro de Pasco Copper	44½	30¼	65¾	38⅝	58	47¾	54¾	4
Chesapeake Corp	48⅞	34	61¼	36	74½	59	69	3
Chrysler Corp	60⅜	29¼	93⅞	31	103⅞	85½	95¼	6
Coca-Cola Co	161½	95¼	93	72½	101½	84	100¾	2
Colgate-Palmolive-Peet	18⅛	9⅜	21	15⅛	20½	13¼	14	.50
Columbian Carbon	77¼	58	101¼	67	134	94	124¾	*4
Colum. Gas & Elec	19¼	6⅝	15¾	3⅜	21⅝	14	19⅝	‡.20
Commercial Credit	40¼	18⅝	58	39½	64⅞	44	63½	3
Comm. Inv. Trust	61	35¾	72	56¼	82¾	55	68⅞	*3.60
Commercial Solvents	36¾	15¾	23⅞	16½	24⅝	15⅞	16¼	.60
Congoleum-Nairn	35⅜	22	27	45¾	44½	32⅝	33¼	1.60
Consolidated Edison of N. Y.	47⅜	18½	34¾	15⅞	38⅝	27¼	34½	1
Consol. Oil	14¼	7¼	12¼	6½	15¼	11½	12¼	‡.25
Container Corp	....	....	23⅛	22	26¼	15¾	17⅞	..
Continental Can	64½	56¾	99¼	62¾	87¼	67½	77¾	3
Continental Insurance	36¼	23⅜	44⅞	28⅞	46	35½	40	*1.20
Continental Oil	22¾	15¾	35	15⅛	38½	28⅛	29½	1
Corn Products Refining	84½	55½	78⅜	60	79⅛	68½	78½	3
Crown Cork & Seal	36¼	18¾	48⅞	23½	63¾	43⅝	56⅜	1
Cudahy Packing	52⅝	37	47½	35⅛	44½	35½	36⅛	2.50
Cutler-Hammer	21½	11	47	16	65	43¼	51¾	*1
D								
Deere & Co	34⅛	10⅛	58¾	22¾	89¼	52	77¼	..
Diamond Match	28½	21	41	26½	40½	33⅞	36	1.50
Distillers Corp. Seagrams	26⅝	8⅞	38½	13⅝	34⅝	18¼	21	..
Dome Mines	46¼	32	44⅞	34⅛	61½	41½	59⅛	*2
Douglas Aircraft	28½	14¼	58⅜	17½	75¾	50⅝	57¾	..
Du Pont de Nemours	103⅞	80	146½	86⅝	153	133	146	*3.60
E								
Eastman Kodak	116½	79	172¼	110½	170½	156	162	*5
Electric Auto Lite	31⅜	15	38⅜	19⅜	44⅝	30¾	35	1.20
Elec. Power & Light	9⅝	2¼	7½	1⅛	16¾	6⅜	16½	..
Electric Storage Battery	52	34	58¾	39	55¼	44¾	46	*2
Endicott Johnson Corp	63	45	66	52¾	69	62⅛	64	3
F								
Fairbanks, Morse	18¾	7	39½	17	53⅜	34¾	50⅜	..
Firestone Tire & Rubber	25¼	13⅛	25½	13⅛	33⅛	24⅞	27¾	1.20
First National Stores	69¼	53	58⅞	44⅜	48¼	40	46⅜	2.50
Foster Wheeler	22	8½	30	9⅞	38¾	24⅛	28	..
Freeport Texas	50⅜	21½	30⅝	17¼	35⅝	27½	30	1
G								
General Amer. Transpt	43⅝	30	48½	32⅝	63	42¼	49½	1.75
General Baking	14⅜	6½	13⅜	7⅜	14⅜	10¾	11¾	.60
General Electric	25¼	16⅞	40⅞	20½	41⅞	34½	38⅝	1
General Foods	36⅞	28	37½	30	40¾	33⅜	40½	1.80
General Mills	64½	51	72½	59⅞	70½	59¾	64	3
General Motors	42	24⅝	59⅜	26⅝	71	53⅞	63⅜	*2
General Railway Signal	45¾	23½	41¼	15⅝	50	32½	37	1
General Refractories	23⅜	10⅛	33½	16¾	44½	33¼	36	1
Gillette Safety Razor	14⅞	8½	19½	12	18⅝	15	15⅞	1
Glidden	28⅜	15⅝	49½	23⅜	55¼	40⅝	40¾	2
Gold Dust	23	16	22	14⅜	21⅜	15¼	16¼	1.20
Goodrich Co. (B. F.)	18	8	14½	7½	23⅞	13⅝	19¾	..
Goodyear Tire & Rubber	41⅜	18½	26⅞	15¾	31⅞	21¾	24¾	..
Great Western Sugar	35¼	25	34⅞	26⅝	39	31	36⅝	2.40
H								
Hercules Powder	81⅝	59	80	71	105½	84	103¼	5
Hershey Chocolate	73¾	48½	1¾	73¼	80	71⅝	71⅝	3
Homestake Mining	430½	310	495	338	544	470	475	*12
Hudson Motor Car	24½	6⅛	17½	6¼	19¾	13½	15	..
Hupp Motor Car	7¼	1⅞	3⅞	¾	3¼	1	2½	..
I								
Industrial Rayon	32¼	19⅜	36⅜	23½	34⅝	25⅝	27⅜	1.68
Ingersoll-Rand	73¾	49½	121	60½	147	106	118	*2
Inter. Business Machines	164	131	190½	149¼	185¼	160	169	*6
Inter. Cement	37¾	18⅜	36⅞	22⅞	49¾	35½	48	1.50
Inter. Harvester	46⅞	23¼	65⅝	34⅛	89½	56⅝	87⅛	1.20
Inter. Nickel	29¼	21	47¼	22¼	54¼	43¼	47	1.20
Inter. Tel. & Tel	17¾	7½	14	5⅝	19¼	12⅛	13⅞	..
J								
Jewel Tea Co	57½	33	67	49	77½	58½	75	*4
Johns-Manville	66⅜	39	99½	38½	129	88	96¾	2
K								
Kelvinator	21¼	11⅝	18¼	10¼	25⅝	14¾	19¼	*.50
Kennecott Copper	23⅛	16	30⅜	13¾	41⅝	28¼	38⅞	1.20
Kroger Grocery & Baking	33⅝	23¼	32⅛	22¼	28	22⅜	22½	1.60
L								
Lambert	31¾	22¼	28½	21¾	26¾	19½	21½	2
Lehman Corp	78	68¼	95¾	67⅛	100¾	89	93	3
Libbey-Owens-Ford	43⅞	22½	49¼	21½	63⅛	47¼	55	2
Liggett & Myers Tob. B	111¼	74½	120	94¼	115	97	107½	*4
Loew's	37	20⅜	55⅛	31¼	54⅞	43	45½	*2
Loose-Wiles Biscuit	44¾	33¼	41⅝	33	44	40½	42⅛	2
Lorillard	22½	15¾	26½	18½	25½	21⅛	22¾	1.20

Dividends & Interest

COLUMBIA GAS & ELECTRIC CORPORATION

The Board of Directors has declared this day the following dividends:

Cumulative 6% Preferred Stock, Series A
No. 39, quarterly, $1.50 per share

Cumulative Preferred Stock, 5% Series
No. 29, quarterly, $1.25 per share

Convertible 5% Cumulative Preference Stock
No. 18, quarterly, $1.25 per share

payable on August 15, 1936, to holders of record at close of business July 20, 1936.

HOWLAND H. PELL, JR.,
Secretary

June 4, 1936

The Board of Direc... has declared a quarterly cash dividend of 25c per share on the Common Stock of the Company, payable July 1st, 1936, to stockholders of record at the close of business on June 18th, 1936. Checks will be mailed to holders of Common Stock and to holders of Voting Trust Certificates for Common Stock.

A. SCHNEIDER, Treasurer.

New York, June 1st, 1936.

LOEW'S INCORPORATED

"THEATRES EVERYWHERE"

June 5th, 1936.

THE Board of Directors on June 3rd, 1936 declared a quarterly dividend of $1.62½ per share on the outstanding $6.50 Cumulative Preferred Stock of this Company, payable on the 15th day of August, 1936 to stockholders of record at the close of business on the 30th day of July, 1936. Checks will be mailed.

DAVID BERNSTEIN,
Vice-President & Treasurer

Endicott Johnson Corporation

The Board of Directors has declared a dividend No. 69 of Seventy-Five Cents ($.75) per share upon the Common Stock and a dividend No. 1 for the period from June 1, 1936, of Forty-one and two-thirds Cents (.41 2/3) per share upon the Preferred Stock, 5% Series. Both dividends are payable July 1, 1936, to stockholders of record at the close of business June 18, 1936.

Checks will be mailed by Irving Trust Company, Dividend Disbursing Agent.

MAURICE E. PAGE, Secretary.

June 1, 1936.

THE BELL TELEPHONE COMPANY OF CANADA

Notice of Dividend

A dividend of one and one-half per cent (1.50%) has been declared payable on the 15th day of July, 1936, to shareholders of record at the close of business on the 23rd of June, 1936.

F. G. WEBBER, Secretary.

Montreal, May 27th, 1936.

To the President of a Dividend-Paying Corporation:—

Why should you publish your dividend notices in The Magazine of Wall Street?

You will reach the greatest number of potential stockholders of record at the time when they are perusing our magazine, seeking sound securities to add to their holdings.

By keeping them informed of your dividend action you create a maximum amount of good will for your company, which will result in wide diversification of your securities among these influential investors.

Place The Magazine of Wall Street on the list of publications carrying your next dividend notice!

New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1934		1935		1936		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	6/10/36	Share
M								
Mack Truck	41¾	22	30⅝	18⅝	37	27⅜	32	1
Macy (R. H.)	62⅛	35¼	57½	30½	49⅜	40⅛	44	2
Mathieson Alkali	40¾	23½	33⅞	23¾	36½	27½	30⅛	1.50
May Dept. Stores	45¾	30	57¾	35⅞	53½	43¼	51⅞	2
McIntyre, Porcupine	50½	30½	45⅝	33¾	49⅜	39⅝	46	2
McKeesport Tin Plate	95⅛	79	131	90½	118½	103⅛	111½	*4
Mesta Machine	34¾	20⅛	42⅝	24⅛	51⅛	40⅝	50⅝	3
Monsanto Chemical	96½	39	94¾	55	103	79	89⅞	*1
Mont. Ward & Co	35⅝	20	40⅞	21¾	45¼	35¾	44⅞	.80
N								
Nash Motor	32¼	12⅝	19½	11	21⅞	16⅜	16½	1
National Biscuit	49½	25⅞	36⅜	22¼	38¾	31⅛	35½	1.60
National Cash Register	23⅝	12	23½	13½	30	21½	24	.50
National Dairy Prod	18¾	13	22⅛	12⅞	25¼	21	24⅜	1.20
National Distillers	31⅝	16	34½	23⅛	33⅜	26¼	26¼	2
National Lead	170	135	206	145	31⅜	27	29	.50
National Power & Light	15½	6⅝	14¾	4⅞	14⅞	9⅝	10¾	.60
National Steel	58¼	34½	83¾	40⅜	75	57¼	66½	1.50
N. Y. Air Brake	28¾	11½	36½	18½	42	32½	40	..
North American	25¼	10¼	28	9	32⅛	23⅛	28	1
O								
Otis Elevator	19⅜	12½	26⅝	11⅛	32¾	24¼	26½	.60
Owens Ill. Glass	94	60	129	80	164	128	145	5
P								
Pacific Gas & Electric	23½	12⅜	31⅝	13⅛	39⅝	30¾	37	1.50
Pacific Lighting	37	20¾	56	19	56⅞	47⅝	51⅛	2.40
Packard Motor Car	6⅝	2¾	7½	3½	13	6⅞	10¼	*.25
Paramount Pictures	....	....	12	8	12	7⅝	8¼	..
Penney (J. C.)	74¼	51½	84¾	57¼	82⅞	69	82⅞	*3
Phelps Dodge	18⅞	13¼	28⅛	12¾	40¼	25⅝	32½	*.50
Phillips Petroleum	20¾	13⅜	40	13¾	49⅜	38⅛	41	*1
Pillsbury Flour Mills	34¾	18½	38	31	37¼	30⅞	33	1.60
Procter & Gamble	44⅜	33⅛	53¾	42⅜	49	40¼	41½	1.50
Public Service of N. J	45	25	46¾	20⅜	48¾	39	45¼	2.40
Pullman	59⅜	35¼	52⅞	29½	48⅞	36⅞	46½	1.50
R								
Radio Corp. of America	9⅛	4½	13⅜	4	14¼	9¾	12	..
Radio-Keith-Orpheum	4¼	1½	6	1¼	9¼	5	5¾	..
Raybestos-Manhattan	23	14½	30¼	16½	38¼	28⅞	32¾	1.50
Remington Rand	13⅜	6	20¾	7	23¾	19	20¼	.60
Republic Steel	25¾	10½	20¾	9	26¾	16⅞	19⅝	..
Reynolds (R. J.) Tob. Cl. B	53¾	39¾	67	55¼	58⅝	50	55½	3
S								
Safeway Stores	57	38¼	46	31⅝	35½	30	32¾	2
Schenley Distillers	35⅞	17⅛	56¼	22	52	38⅜	39¾	..
Sears, Roebuck	51¼	31	69⅞	31	75¾	59⅝	75	2
Servel	9	4⅜	17	7⅝	22⅝	15⅝	22⅛	.60
Shattuck (F. G.)	13⅞	6¾	12⅞	7¼	16¾	11⅛	13¾	.50
Shell Union Oil	11½	6	16½	5½	19¼	14¾	17	..
Socony-Vacuum Corp	19⅞	12½	15¾	10⅝	17	12½	12⅞	.40
So. Cal. Edison	22⅛	10⅛	27	10⅝	28¾	25	26⅞	1.50
Spiegel May Stern	76¾	64	84	43⅞	77¾	63	70¼	3
Standard Brands	25¼	17¼	19⅛	12½	18	14⅜	15¼	.80
Standard Oil of Calif.	42⅞	26½	41⅛	27¾	47⅝	35⅜	36	*1
Standard Oil of Ind	32¾	23¼	33⅜	23	40⅛	32¾	34½	*1
Standard Oil of N. J	50⅛	39¼	52⅜	35¾	70	51⅛	58⅝	*1
Sterling Products	66½	47¼	68	58¾	71¾	65	69	3.80
Stewart-Warner	10⅝	4½	18⅞	6⅝	24½	16½	18	.50
Stone & Webster	13¼	3⅞	15⅛	2½	21¼	14⅝	19⅛	..
T								
Texas Corp	29⅜	19⅝	30¼	16½	39½	28⅞	31⅞	1
Texas Gulf Sulphur	43¼	30	36¾	28¾	38¾	33	35⅞	2
Tide Water Assoc. Oil	14⅜	8	15⅞	7⅝	19⅛	14¾	15⅜	.60
Timken Roller Bearing	41	24	72½	28⅜	72½	56	60¾	*2
Tri-Continental	6¾	3	8¼	1⅞	12	7⅛	8½	..
Twentieth Century-Fox	....	....	24⅞	13	32⅜	22½	27⅛	..
U								
Underwood-Elliott-Fisher	58⅞	36	87¼	53¾	99	83	83	3
Union Carbide & Carbon	50⅞	35⅞	75¾	44	88⅜	71⅝	87¼	2.40
Union Oil of Cal	20½	11½	24	14¾	28½	20⅞	21⅞	1
United Aircraft	15¼	8⅛	30⅜	9⅞	32⅜	20⅝	23⅞	..
United Carbon	50⅜	35	78	46	79½	68	79½	2.40
United Corp	8⅞	2⅛	7¾	1½	9¼	5⅜	7	..
United Corp. Pfd	37⅞	21¼	45¾	20¾	47¾	40¼	44¼	3
United Fruit	77	59	92¾	60½	79	66½	78¾	3
United Gas Imp	20⅛	11½	18½	9¼	19½	14⅜	15½	1
U. S. Gypsum	51¼	34¼	87	40½	110½	80½	92	2
U. S. Industrial Alcohol	64¾	32	50⅝	35⅛	59	35⅛	35⅛	1
U. S. Pipe & Fdy	33	15½	22⅝	14¾	39½	21½	38⅝	1.50
U. S. Rubber	24	11	17¼	9⅛	35	16⅜	28¼	..
U. S. Smelting, Ref. & Mining	141	96⅝	124½	91¾	96½	84½	89	*6
U. S. Steel	59⅞	29⅜	50⅝	27½	72⅜	46⅜	61⅝	..
U. S. Steel Pfd	99½	67¼	119¼	73⅝	132¾	115½	126¼	2
V								
Vanadium	31¾	14	21¾	11¼	27¼	16¼	19½	..
W								
Warner Brothers Pictures	8¼	2¾	10¾	2¼	14⅝	9¼	10	..
Western Union Tel	66⅞	29½	77¼	20⅝	95	72½	81¾	‡2
Westinghouse Air Brake	36	15⅞	35¾	18	48⅛	34¾	39½	1
Westinghouse Elec. & Mfg	47¼	27⅞	98¾	32⅝	122⅞	94½	112¾	3
Woolworth	55¼	41¼	65¼	51	56⅜	44¾	50¼	2.40
Worthington Pump & Mach	31⅞	13½	25¼	11¾	35½	23⅛	27	..
Wrigley (Wm., Jr.)	76	54½	82¾	73¾	79	66	67½	*3

* Annual Rate—not including extras. † Paid last year. ‡ Paid this year

Answers to Inquiries

(*Continued from page* 308)

Va., plants during the first two months of the year. Beginning in March, conditions improved materially and with the new Lake Charles, La., plant of the company steadily increasing production, prospects continue to point to a gradual recovery of earning power. Of course, the Lake Charles plant probably will not contribute much to earnings for a year or so, but it does give the company a foothold in a section of the country which promises great industrial growth over future years. Increased building activity throughout the country and the well sustained demand for automobiles augurs well for takings of glass, which in turn indicates that the company's soda ash sales should be well maintained. Chlorine also continues in good demand as a result of higher consumption by processors of chemicals and the price structure has improved materially over last year. Since alkalies are employed by a large variety of industries, sales tend to follow general business trends. Indications point to further gains over the balance of the year and while costs of labor and fuel are higher, these items should be offset by increased volumes. Finances naturally have suffered somewhat, as a result of the excess over earnings of dividends and expenditures for improvements and additions to property, but they are still adequate for all ordinary requirements. If your commitment of 300 shares in this situation is not out of proportion to the balance of your holdings, therefore, we would be inclined to suggest maintenance of your present long position in the issue.

BORDEN CO.

As regards to income, I am well pleased with my Borden Co. shares. I wonder though about the possibilities for further price appreciation, and I would like to have your views on the outlook from here on. —S. E. J., St. Louis, Mo.

The Borden Co. operates as the second largest unit in the domestic dairy products industry and during recent years has greatly expanded the scope and diversity of its business. Originally, the company's business consisted mainly of gathering and distributing milk and cream. While these items still constitute a major interest, accounting for approximately one-half of profits, the concern is now actively engaged in the production and sale of butter, cheese, ice cream and other affiliated lines. Prior to 1929, the company enjoyed a fairly consistent uptrend in earnings. With the advent of the depression, however, shrinking consumer purchasing power, together with continued heavy supplies of milk, tended to unsettle the entire price structure of the industry and serious inroads were consequently made into profits. However, the lowest per share earnings to be reported were for 1934, when the equivalent of $1.02 a share was recorded on the capital stock. That figure compared with $5.50 a share in 1929. Results for 1935 registered some improvement, with the equivalent of $1.10 a share having been recorded. Dollar sales of the company increased considerably as a result of expanding consumer purchasing power, although labor difficulties and other factors tended to restrict the gain in net earnings. Basically, there seems to be an improving trend in the entire dairy products industry from which Borden should benefit. The long talked of down-turn in the number of milch cattle, as a result of drought conditions and high feed prices, together with expanding consumption of fluid milk, augurs well for the price structure not only in this division, but also for the biproducts into which surpluses are converted. Finances of Borden continue in excellent shape and at the close of 1935 current assets amounted to $53,154,264, including cash alone of $19,840,568, compared with current liabilities of but $12,350,431. According to recent information, earnings this year probably will exceed common dividend requirements. It has been stated by the management that improvement was recorded during the first quarter of the current year over a year ago, not only in fluid milk sales, but also in sales of other products handled. With the major trend of the industry apparently on the upgrade, we feel that the capital stock of Borden Co. at current quotations is reasonably priced and accordingly suggest further retention of your holdings both for income and further gradual appreciation.

NATIONAL BISCUIT CO.

I am contemplating the purchase of some National Biscuit stock but would like the benefit of your advice. Are the prospects bright enough to warrant purchasing 100 shares at prevailing prices?—J. P., Ossining, N. Y.

As the largest domestic biscuit manufacturer, the National Biscuit Co. is naturally sensitive to changes in employment and public purchasing power. Last year's earnings of $1.31 a share on the common stock, after preferred requirements, compared unfavorably with the $1.57 a share recorded in 1934, but there were definite indications of improvement during the last half of the year. This was due largely to the improvement which occurred in the general business situation, particularly in the industrialized northeastern section of the United States, where the company obtains its greatest market. With the invalidation of the A A A early this year, the company was relieved of burdensome processing taxes, which action should find reflection in subsequent earnings. As a matter of fact, the report of the company covering the quarter ended March 31, 1936, shows considerable improvement, with the equivalent of 39 cents a share on the common, comparing with 22 cents a share for the March quarter of 1935. Of course, much of this improvement may be attributed to better demand for its relatively high profit sweet goods lines, although lower raw material costs as a result of eliminated processing taxes also doubtless contributed to this showing. Retail price levels are estimated at some 10% above those prevailing during the depression low, due largely

to less severe competitive conditions. Prior to the depression the company is understood to have obtained about 45% of its dollar volume from sweet goods, the remainder being comprised of the less profitable unsweetened items. It has been estimated that sweet goods sales declined during the depression to a low point of around 25% of total dollar volume, and while there has since been improvement in this relationship, there is still plenty of ground to be regained before the 1929 ratio is reached. The balance sheet position of the company at the close of last year remained strong, despite the fact that dividends paid on the common exceeded earnings in both 1934 and 1935. The stock currently yields nearly 5% on the basis of the $1.60 annual rate, which in this market is exceptional for an issue of National Biscuit's caliber. Since the trend of dollar sales volume should continue to parallel general business recovery and since better profit margins are in prospect, we are inclined to agree with you that the stock would constitute a sound adidtion to your account.

NATIONAL SUPPLY CO.

Please advise me concerning National Supply Co. I should like to know whether you think the outlook warrants higher prices for its shares, or whether the pick-up in oil well supplies is now discounted in present prices.—A. D., Des Moines, Iowa.

It might be argued that current prices for National Supply Co. shares at least generously appraise current earning power. A more detailed study of the situation, however, reveals interesting possibilities which perhaps are not fully recognized in the present price of the stock. There are two considerations of importance in this connection. First, the outlook for improved earnings. National Supply Co. is concerned principally with providing such products as drilling machinery, engines, hoists and various tool products. While recovery has been gradual, more recently the incentive to increase drilling operations has been strong. Reflecting this improvement, National Supply Co. showed net earnings for the first quarter of 1936 equal to 53 cents a share on the common stock, which compares with a deficit reported from operations in the first quarter of 1935 equal to $1.02 a share on the common. This first quarter statement furnishes a striking illustration of the second important factor to be considered in this connection, namely, the leverage incident to the capital structure. Totalling the outstanding subsidiary bonds and preferred stock, as well as the company's own preferred issue, we find that there precedes $9,566,000 of common stock (par $25), senior issues totalling $36,000,000. Thus an increase in gross earning power is magnified in terms of the relatively small amount of common shares outstanding. For instance, in the first quarter this year the gross showed an increase of about 42% compared with the first quarter of 1935, but the net after taxes, interest and depreciation increased about 600%. Since National Supply Co. has now passed the point where it is able to provide for all senior capital issues and allow a profit for common stockholders, and since the outlook for continued expansion in gross earning power is favorable, it is not difficult to foresee greatly improved earnings per share in future reports. This improvement should permit of a satisfactory adjustment of the preferred dividend arrearages, ultimately clearing the way for dividend consideration on the common stock. We feel that with this prospect we are justified in suggesting that you retain your holdings on the basis of current quotations.

U. S. GYPSUM CO.

Last August, at the suggestion of your magazine, I purchased 50 shares of U. S. Gypsum at 66½. I have been traveling since, and have not seen your subsequent advices, therefore will you tell me what do you think of the possioilities of this stock going higher?—D. C. D., Great Neck, L. I.

We are currently advising retention of U. S. Gypsum shares at present prices since there is sufficient basis for the expectation of material expansion in earning power which in turn should be reflected in rising price levels for the issue. The forecast of high earnings is predicated upon the outlook for further increase in building activity and upon the important position in that industry held by this company. U. S. Gypsum is far in the lead of its competitors in the production of wall boards and plaster boards, is assuming a place of importance in the production of roofing and insulating materials, and is actively engaged in seeking further diversification of its products through the activities of its research organization. By virtue of its operating efficiency, plant locations and capacities, and through the ownership of its adequate sources of raw materials, the company is peculiarly well situated to take advantage of greatly increased volume of business and maintain satisfactory profit margins by reducing the production cost per unit of output. Its strong financial status, and ownership of basic patents further strengthens its position in this respect. Residential building, aided by government and private financing, has been strongly on the upgrade in recent months, and indications point to a continuation of this forward movement in all parts of the country. In response to this improvement in the industry, U. S. Gypsum registered substantial gains in business volume in 1935, and showed for its stockholders earnings equivalent to $2.47 a share. While this marks a very important advance compared with the preceding year, when earnings were $1.35 a share, nevertheless it appears from a survey of the situation that a cyclical movement in business activity is only gathering momentum, and that a still further substantial increase must be registered before activity reaches its pre-depression norm, in new building activity and in renovation and repairs. The full extent of the operations of Federal Housing Administration in the encouragement and incentive to building operations has not yet been registered. As a matter of fact, although it is undoubtedly one of the soundest plans devised for the acceleration of industrial activity, it has only gradually demonstrated its effectiveness. According to reports issued by that agency the first quarter of 1936 gives evidence of a rapidly growing interest in the financing facilities extended under its program, and ultimately it is not unreasonable to expect that the activity so generated will be translated into operations in the building field comparable to pre-depression levels. Such prospects may be partially discounted in the present price for the stock, but we doubt if they recognize the full extent of potential earning power.

GENERAL CABLE CORP.

Do you think that the recent improvement in outlook for General Cable will continue? What would you advise me to do with 200 shares of common on which I have 4 points profit?—B. S., Seattle, Wash.

It is not difficult, if one considers the potential increase in the demand for its products arising from expansion in the trades supplied by General Cable Corp., to find a basis on which to forecast continuation of the improvement shown recently. Encouragement may be found in the prospect for increased sales of electric household appliances, the outlook for development of activity in railroad equipment manufacturers, maintenance at high levels of automobile production, the upward trend in building construction, light and power production, favorable indications shown in increased use of motor trucks and buses, and finally the longer term promising prospects presented in the development of aviation and even of television. If we consider this prospect, and consider also the trade position of General Cable Corp. in the manufacture of a widely diversified line of copper wire and cable, bronze and brass wire, aluminum wire, copper rods and copper sheeting, then

we are not lacking in reasons for expecting continuation of the uptrend in earnings recently registered, very possibly at an accelerated pace. There is to be considered the matter of dividends accrued on the preferred stock, now totaling a sum in excess of $5,000,000 or the equivalent of about $35 a share. Without doubt, this matter of dividend arrearages constitutes a serious obstacle from the point of view of the common stockholders, so far as near term dividend considerations is concerned. Granted the maintenance of earning power on a satisfactory basis in the future, however, some adjustment should be possible which would satisfy the preferred stockholders and clear the way ultimately for participation in earnings by the common. The depression interrupted a period of rapid expansion in the properties and business of General Cable Corp. In 1929 the company reported gross revenue of nearly $12,000,000, and net earnings equal to $4.20 a share on the common stock. In contrast, 1935 gross revenues were only slightly above $3,700,000, but net income of $36,000 was shown, the first profit since 1929. In itself, this contrast between 1935 and 1929 statements serves to give some indication of potential earning power, and also serves to fix the stage of recovery so far recorded by this company. While the common must be considered speculative in character, it should be recognized that a strong financial status serves greatly to reduce the risk, and we believe that the promising prospects for improvement makes retention of your holdings at this time quite logical.

INTERNATIONAL NICKEL CO. OF CANADA, LTD.

At current prices International Nickel seems to me to be selling rather high, particularly when you consider the dividend disbursement of only $1.20 annually. I have a nice profit in this stock and feel inclined to take it. Do you think this is a wise move?—B. M., Brooklyn, N. Y.

In relation to current dividend disbursements, that is to say, on the basis of investment return, International Nickel shares might be considered high-priced at current levels, if it were not for the fact that indications point to probable eventual dividend increases through substantially expanded earning power. Many major factors contribute to the almost unique recovery registered in the earning power of International Nickel from the low of the depression in 1932 to the publication of the report for 1935, which in point of sales volume as well as in net income, exceeded the previously established peak record of operations in the year 1929. Increased use, and wider diversification of uses, of the metal account for this remarkable record. Obviously, much progress has already been made in the application of nickel to so many and varied fields of usefulness, already including the building industry, automobiles, trucks, and buses, the electrical industry, machinery, implement and equipment industries, as well as in the manufacture of radios and household equipment. Armor plate, of course, absorbs large quantities and it does not appear from a survey of the progress made that a limit has been reached in the extension of the peace-time uses for the metal. Were it not for the fact that International Nickel controls more than 90% of the world's production of nickel, such promising prospects would attract considerable competition. It is this unusual status with regard to control of production that not only virtually eliminates that risk, but permits stabilization of the price level which undoubtedly has been, and likely will continue to be, an important factor in the earning power of this company. Recent financing of new plants out of earnings has probably actuated a cautious policy with regard to dividend disbursements, although the financial status is exceedingly strong. Earnings in 1935, at $1.66 a share, provided a

wide margin of coverage for the present regular dividend rate, and with the publication of results for the first quarter of this year showing per share earnings of 54 cents as compared with 30 cents for the first quarter of 1935, it appears highly probable that full year 1936 results will again register a pronounced advance in the strongly upward trend of earnings of this company. At this time, therefore, we feel that retention of your holdings of this stock would be wiser than profit taking.

AMERICAN METAL CO., LTD.

As a shareholder of American Metal it seems to me that earnings for the first quarter were bolstered substantially by a very large disbursement from Cia Matalurgica Penoles, a Mexican subsidiary. Is this likely to continue? Do you counsel retention of 150 shares of this stock purchased at 25?—G. D. W., Salt Lake City, Utah.

American Metal Co., Ltd., either directly or through investment holdings, is represented in practically all phases of the mining, smelting and refining industry. It owns substantial interests not only in the United States, but also in Cuba, Mexico and Africa. While the company has lost a large part of its custom copper smelting business, this loss in trade position has been made up through sizable investments in African copper properties which rank among the world's lowest cost producers and are therefore particularly well situated to show sharp earnings gains as a result of expanding demand and a firmer price structure for the "red metal." As you state, the improvement shown by the company during the March quarter of the current year was due to the increase in dividends received from Cia Metalurgica Penoles, unconsolidated Mexican subsidiary. The latter organization naturally has benefited from increased lead and silver mining activities in Mexico, where it operates smelters. However, American Metals' other extensive mining and smelting interests also are benefiting currently from the improvement which has occurred in the industry, and larger returns are indicated from Climax Molybdenum and Roan Antelope. If foreign copper prices hold, the company stands to realize handsomely on its large investment in Rhodesian Selection Trust. These factors combine to indicate speedy liquidation of remaining arrears on the company's own preferred stock, which, after allowing for the recent $4 declaration, amount to $16.50 a share on the 66,670 shares outstanding. The company has strengthened its position in the domestic copper mining industry through the acquisition of an interest in Consolidated Coppermines Corp., which owns extensive acreage in Nevada. Finances of the company were satisfactory at the close of last year, with current assets largely in excess of current liabilities. Since the company should have little difficulty in liquidating arrears on its preferred stock, if the improvement in the industry holds, we are of the opinion that maintenance of your present long position in the stock for a further period will prove profitable.

Making Money in New Markets

(*Continued from page 293*)

curtailed activities of specialists, the unwillingness of banking sources to support issues in which they are interested lest they run afoul of the S E C, and the large amount of stock which has been removed from the market by investors and investment trusts.

An abrupt advance or decline in a single issue, owing to a brief technical situation, may not cause the trader any particular concern. If, however, he employs "stop orders" and these are placed fairly close to the market, he may find himself suddenly stopped out of his position. Every attempt, therefore, should be made to avoid "thin market" issues and as an additional safeguard "stops" should be entered somewhat further away from the market than normally, if this is consistent with his trading program.

Unquestionably, one of the most significant changes wrought in the market in recent years has been the marked diminution in the prophetic qualities displayed in the movement of stocks. Formerly, such favorable news as large orders, higher earnings increased dividends and their like was usually heralded some weeks in advance of official announcement and public knowledge by advancing quotations. Conversely, unfavorable developments cast their shadow in lower prices some time before they were publicly known.

The fact that stocks were thus endowed was due to the fact that company officials and other "insiders" close to a company's affairs knew of favorable or unfavorable developments affecting the company well in advance of the general public. They were able to capitalize this knowledge early by buying or selling the stock as events dictated. Such buying or selling reflected itself in the movement of the shares marketwise, and there were many instances where stocks rose or declined for no reason apparent to the public. This gave rise to the practice of "selling on good news" and "buying on bad news," on the theory that in either case the situation had previously been fully discounted. In the circumstances it was not unusual for stocks to sell off on favorable developments and to hold firm or show gains when unfavorable factors became public property. This, however, is much less likely to be the course of developments in present-day markets.

Company officials are no longer willing to capitalize their knowledge to the extent which they formerly did, realizing that if they did so all of their buying and selling would be publicly disclosed by the S E C in about two months. The fact that they had taken advantage of their position might well cause dissension in the stockholders' ranks.

As a consequence, the public has almost equal opportunity to share in the trading opportunities offered by favorable or unfavorable developments. Any number of examples might be cited to show stocks which had risen substantially *after* good news had been made public. The accompanying chart of Chrysler Corp. graphically illustrates the trading possibilities present in the shares immediately following favorable events. Of particular interest is the graphic comparison of the market movements in American Can and Owens-Illinois Glass. In the spring of 1935, considerable speculative impetus was given to American Can by the news attending the company's development of a tin container for beer and its acceptance by a number of leading brewers. While the shares of Owens-Illinois Glass, a leading maker of beer bottles recovered from their March low with the market as a whole, they sold lower than might otherwise have been justified by the company's earnings. Last October, however, a substantial gain in the company's earnings accompanied by announcement of the company's plans to manufacture cans as well as enter several other new fields carried the stock from about 93 to about 130. Later the shares rose from 130 to above 160. American Can in the meantime held steady and near its high throughout the summer of 1935, until it became publicly known that development expenses and less inventory profits would adversely affect earnings, following which the shares declined from close to the 150 level to 130 and later to 115¾. In both instances, the trader had ample opportunity to take advantage of the news *after* it was made available to him.

Here then is a new phase of the market which benefits the smaller trader. If it does not put him on an equal footing with company officials, he is at least afforded an opportunity to interpret news and exercise his judgment to profitable advantage.

In the final analysis, of course, good judgment is the stock speculator's strongest asset, but it will pay him larg-

er dividends if he realizes that the character of the stock market has changed in a number of important respects necessitating a different technique. Subdued speculative activity will have a tendency to lengthen the time element involved in a profitable trade. Higher margin requirements alone have been sufficient to modify considerably the tactics formerly employed in stock trading. More capital is required and the trader must be adroit if changing his position to avoid a "restricted" account. There may be numerous occasions when it is more desirable from a trading standpoint to remain on the sidelines rather than accept the status of an involuntary investor. The risks of "air pockets" in thin market stocks are greater and more discretion must be used when "stop" orders are employed. News developments have acquired a tangible value with a definite relation to stock movements, permitting the trader to rely more than ever on authentic information rather than "tips." Truly, changing times have left their mark on the art of security speculation.

Economic War With Japan

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customs restriction which always, sooner or later, overtakes the sudden inroads of Japanese goods, they gained 40 per cent in Latin America last year, on top of previous gains. Their wares dominate the shops everywhere. But after all—despite a huge Japanese colony in Brazil, improved steamship service and astute consular and diplomatic backing, old Uncle Sam is coming back from his depression lethargy. In 1933 he hopped up 11 per cent in his Latin-American exports, in 1934 he laid on a 41 per cent gain, and topped it with 38 per cent more in 1935. Uncle dominates the import trade of all the Latin countries to the South, except Columbia, Ecuador and Costa Rica.

Japan has the whole world on the run in certain textile products and many minor manufactured articles and products, but except in Asia her competition does not necessarily mean much to us. Asia will go to Japan whenever Japan is ready to take it—commercially. We may as well get out of Asia when Japan points to the door. As for our home market we can close that to the Japs whenever it makes sense to do it—which will probably be never in our time. As for South America we can have that market as far as we need and want it—so far as Japanese competition is concerned and its present stage of development. As for the future, peace between Japan and the United States will be mainly a matter of our getting out of China and the Far East generally and staying out except as the Nipponese desire our presence. China and Russia will give Japan all the trouble she needs in that part of the world. We can take care of our part of the globe. But in the meantime, when we start to worry about a few canned fish and some tawdry electric lamps and piles of cheap handkerchiefs let us not forget that on the whole the United States and Japan have a highly reciprocal, mutual-benefit trade in raw materials and specialties—largely without tariff barrier either way.

Outlook for Leading Industries

(*Continued from page* 276)

quarter. The cost of most such equipment is not large enough to bring political uncertainty into the equation. In any event that adverse factor is more than offset by the spreading spiral of general recovery and especially by the trend toward labor saving equipment which is increasingly fostered by social legislation tending to increase business costs.

THE PUBLIC UTILITY INDUSTRY last year sold 3 per cent more electricity than in 1929 and during the first half of this year sales have averaged approximately 12 per cent higher than a year ago, which means that the industry is well on its way to another new high in volume. This performance reflects a partial recovery in industrial demand, relative stability in commercial demand and large growth in domestic consumption, the latter being due partly to population increase since 1929 but much more to increased use of appliances in the home, especially electric refrigerators. Gross revenues are now almost back to the 1929 level, despite lower rates, but net earnings still have a long way to go, having been held back by higher costs and especially by the burden of taxation. There has been no significant check to the rising trend of taxes. In fact the impact of the Social Security taxes is yet to be felt. On the other hand, other cost factors now appear to be stable, many companies have effected savings by means of refunding operations and the leverage factor involved in utility capitalizations is now translating moderate gains in gross revenues into substantial gains in net earnings. This present favorable trend will continue in the third quarter, but the rate of gain over a year ago hardly can be widened in this period. Nor will the third quarter

see much fresh business stimulation from the industry's capital expenditures. These unquestionably will be somewhat increased after the election, regardless of its outcome, and will be greatly increased if the election results in relieving some of the industry's present political fears.

In other major areas of business activity the position of the railroads will be further improved during the third quarter and retail trade is certain to widen its present gain over a year ago. Seasonally, the period is one of rising traffic for the carriers, and with costs fairly well stabilized for the present gains in car loadings running around 16 per cent over a year ago will be translated into substantially improved operating income. Retail trade, surprisingly strong at the mid-year, will be given a further boost both by the initial and secondary stimulus of the $2,000,000,000 veterans' bonus. Although it is too early to forecast the year's crop yield without possibility of a wide margine of error, it appears likely that third-quarter farm income, despite present drought in some areas, will be slightly higher than a year ago.

In summary, any recession in third-quarter business activity can be expected to be both moderate and of brief duration.

Railroad Recovery in the Balance

(*Continued from page* 287)

patches recently as saying that the measure will not be passed by the Senate at this session of Congress. The bill would enable the railroads to charge a lower rate than now on Coast-to-Coast traffic and thus to compete with the ships handling such traffic through the Panama Canal. Such a step has been under discussion for nearly 50 years.

Recently the railroads and organized railroad labor reached an agreement with respect to the pay of employees that might be dismissed as the result of co-ordination and consolidation plans. It provides that employees so displaced will receive from two months' compensation for those in service less than a year to 60 per cent of full pay for five years, or a lump sum of one year's pay for those in service 15 or more years. The agreement is for five years from June 18.

These terms are not likely to prove as formidable to the railroads as might seem at first glance. They apply only to employees displaced by plans for co-ordination of physical facilities or consolidation of the railroads themselves. As neither undertaking is contemplated on a large scale in the near future, the agreement is not likely to cost the railroads much money within that time. The officials greatly prefer the terms of this agreement to the so-called Wheeler-Crosser Bill in Congress which was actively supported by organized railroad labor, and which they say would have proved much more onerous and costly.

As just indicated, there appears to be little probability of extensive co-ordination plans being ordered by the Government or undertaken voluntarily by the railroads in the near future. If they are, the latter will be able to dismiss whatever employees may seem necessary and pay them in accordance with the terms of the agreement recently made with organized labor. As the Emergency Act stood before that agreement was reached, this was impossible, as the labor quota of May, 1933, had to be maintained.

Furthermore, it has been reported in recent Washington dispatches that President Roosevelt had written Joseph B. Eastman, Federal Co-ordinator of Transportation, to "lay off" on compulsory co-ordination and consolidation plans, for a while at least. This the Co-ordinator vigorously denied, but was quoted as saying that he thought the railroads should be given time to bring forward voluntary plans before they were ordered by him to make them. Only a few months ago he had actually ordered some co-ordination plans and threatened to order certain consolidation plans if the railroads did not first take such action.

There has been much discussion for a long time as to whether the office of Federal Co-ordinator of Transportation would be extended after the expiration on June 16 of the present authorization. Both the railroads and organized labor have been strongly opposed to the continuance of the office. Senator Wheeler, however, recently introduced in the Senate a resolution providing for its continuance for three years to June 17, 1939. At this writing action has not been taken on the resolution. The Federal Co-ordinator's office has cost the railroads $2 per mile of line, or more than $500,000 a year.

The so-called Guffey Coal Act of 1935, which recently was declared unconstitutional by the U. S. Supreme Court, was intended to be an N R A, on a small scale, for the bituminous coal industry. It is officially estimated that the provisions of this act, together with increased fuel costs growing out of wage adjustments in the bituminous fields, would have increased railway costs in the neighborhood of $20,000,000 a year. Senator Guffey plans to push a substitute bill to passage.

The foregoing gives an idea of the most important legislative and regulatory situations which the railroads have escaped or with which they still have to deal, and the amount of money involved for them each year in each instance, so far as such figures are obtainable from official or authoritative sources. It will be of vital importance to every one interested in railroad securities to watch closely all developments in connection with these situations.

Appraising the Prospects for General Foods

(*Continued from page* 284)

but no one has a monopoly on sub-zero temperatures or a monopoly on methods of obtaining such temperatures. Thus, for example, there is nothing to prevent Swift & Co. or any other large food concern from entering this field.

We have pointed out above, however, that the hardest nut to crack in this field is the establishment of a distributing system. The first producer of quick-frozen foods who gets a national distributing system set up will have an advantage that no competitor could match except over a period of years. Therefore General Foods has the jump and will hold it for a long time, if not indefinitely. Meanwhile the fact that thus far it is no more than breaking even on its large expenditure in promoting Frosted Foods certainly offers scant lure to potential rivals.

The biggest money makers for General Foods at present are its "Postum" division, on which the enterprise was founded at Battle Creek, Mich., in 1895 when Charles William Post began to experiment with cereal foods in attempting to restore his waning health; the "Jell-O" division and the "Maxwell House" coffee division. These account for 50 per cent of the volume, with the "Postum" division providing 25 per cent alone.

By 1922 the Postum Cereal Co. had four established products — "Postum Cereal," "Instant Postum," "Grape-Nuts" and "Post Toasties." To smooth out the seasonal variations in the business and to make more effective use of the national selling organization the expansion program was decided upon. The more important acquisitions in following years, besides "Jell-O" and "Maxwell House" coffee, included Igleheart Brothers, flour makers; Walter Baker & Co., makers of chocolate; Richard Hellmann, Inc., mayonnaise; the Franklin Baker Co., chocolate; Log Cabin Products Co., Calumet Baking Powder Co., Certo Corp. and Diamond Crystal Salt. Altogether, twenty-five major lines of products are carried.

Most of these products are non-

essential food specialties attractively packaged and exploited by large scale advertising and one of the smartest selling organizations in the business world. The company spends around $10,000,000 a year in advertising, going particularly heavy in the leading women's magazines of national circulation and on the radio. Two of its programs—the Jack Benny "Jell-O" broadcast and the "Maxwell House Show Boat" broadcast—top the list in radio favor. How well this job of selling premium foods is done is suggested by the fact that at the bottom of the depression dollar sales had fallen off no more than 30 per cent or so—which means that with allowance for lower prices only a moderate drop in physical volume was experienced—and by the further fact that today, with the national income still far under normal, physical volume is higher than in 1929 and dollar volume within 10 per cent of that peak.

The man chiefly responsible for the expansion of General Foods is Edward F. Hutton, wealthy in his own right, who became chairman of the board of directors in 1923 following his marriage in 1920 to the heiress to the Post fortune. Mr. Hutton recently retired as chairman but remains a director. The chief operating heads of the business long have been Colby M. Chester, Jr., now chairman; and Clarence Francis, now president. Mr. Chester entered the business in 1919 at the behest of Marjorie Post Close, to whom he had for some years been friend and legal adviser.

Aside from "the Postum heiress," now divorced from Mr. Hutton and married for a third time, large stockholders in General Foods include Mr. Hutton, Warren Wright, whose holdings derived from exchange of Calumet Baking Powder stock; the Woodward family of Rochester, who entered the General Foods scene via their Jell-O company; the Richard Hellmann Securities Corp. (Hellmann's mayonnaise); the Cheek family of Nashville, Tenn. (Cheek-Neal Coffee Co. of "Maxwell House" fame), and Austin Igleheart (Igleheart Brothers, flour).

The working capital of General Foods, as of the latest balance sheet, totals $35,419,610, including $15,387,360 in cash items. These figures compare with $26,712,252 working capital in 1929 and $9,188,933 cash. Inventory of around $20,000,000 is now being turned over approximately six times a year. The property account, less depreciation reserve, is only $19,341,435. The total capitalization is only $67,868,460 but the stock market believes the enterprise is worth $214,300,040, since there are 5,359,751 shares of stock outstanding and the current price is 40.

At a guess, let us say that about the most General Foods can earn this year will be between $12,500,000 and $12,800,000. That, taking the lowest figure, would represent a profit margin on sales of approximately 10.7 per cent—not bad, though far under the 15.2 per cent margin in 1929. It is more than a 20 per cent return on the capital actually invested, and that is not bad either. On the other hand, on the current stock market's valuation of $214,300,040 it would represent a return of only 5.9 per cent.

Reduced to a per share basis, General Foods earned $2.23 last year, against $2.12 in 1934, and in the first quarter of this year showed 77 cents, against 64 cents a year ago. Again at a guess, let us say $2.40 to $2.45 this year. Taking the lower figure, the equity is priced at 16.6 times earnings. For a stock of semi-investment character—not heavily endowed with dynamic possibilities even with generous allowance for the near term prospects in Frosted Foods—we would conclude that it is at least worth 40 and even a little more.

Railroad Equipment Companies Face Expanding Future

(*Continued from page 299*)

pany earned an average of $4.75 annually on its common stock and the prospect that this level will again be reached in the future lends interesting speculative possibilities to the common.

The Air Brake Companies

Westinghouse Air Brake Co. is another manufacturer which promises to be an important beneficiary, regardless of whether railway equipment rehabilitation takes the form of repairs or new purchases. This company is the leading manufacturer of air brakes, air compressors, automatic couplers, etc. A subsidiary, the Union Switch & Signal Co., is an important manufacturer of signaling devices and railroad safety devices. Westinghouse manufactures the A-B brake, a comparatively recent development capable of much greater braking efficiency, and specified by the Association of American Railroads as required equipment on all new freight cars. From the company's standpoint, this is a factor of considerable potential importance. Last year Westinghouse reported net profits of $922,076, equal to 30 cents a share on the 3,172,110 shares of capital stock. (The company has no bonds or preferred stock.) The company's business was particularly active in the final quarter of 1935, followed by a further upsurge in the first three months this year. Orders booked

New York Curb Exchange

Active Issues

Quotations as of Recent Date

Name and Dividend	1936 Price Range High	1936 Price Range Low	Recent Price
Alum. Co. of Amer.	152	87	119
Amer. Cyanamid B (.60)	40¾	29¼	35½
Amer. Gas & Elec. (1.40)	49¾	33¾	38
Amer. Lt. & Tr. (1.20)	25	17⅜	21¾
Atlas Corp. (‡.40)	16¼	11¾	12½
Bower Roller Bearing (1)	29¼	20½	22
Butler Bros	10⅞	7⅝	9⅜
Cities Service	7⅜	3	4⅝
Cities Service Pfd	59⅞	41½	53
Colum. G. & E. cv. Pfd. (5)	114	93	107¼
Commonwealth Edison (4)	112	97	101
Compo Shoe (.50)	16	11½	14⅝
Consol. Gas Balt. (3.60)	92¾	84	91⅞
Crane Co	31	24	30¼
Creole Petroleum (†.20)	34¾	19⅞	25⅜
Doehler Die Casting	35⅜	27¾	30½
Driver Harris (1)	39	25	27
Elec. Bond & Share	25½	15¾	21⅜
Elec. Bond & Share Pfd. (6)	87	74¾	84
Ex-Cell-O A. & T.	23⅝	14¼	16¼
Ferro Enamel (1.00)	40½	28⅜	35⅞
Flintkote A (*1)	45	33¼	33¼
Ford Mot. of Can. "A" (‡.75)	28⅜	20½	22¾

Name and Dividend	1936 Price Range High	1936 Price Range Low	R3cent Price
General Tire	93	68½	69
Glen Alden Coal (1)	18⅛	13¼	14⅞
Gulf Oil of Pa. (1)	98	72	75¼
Hudson Bay M. & S. (1)	28⅜	22¾	24⅝
Humble Oil (1)	76½	57	58⅛
Imperial Oil (*.50)	24½	20	20⅞
Iron Fireman (1)	31½	23¾	25
Lake Shore Mines (*2)	60	51	59¾
Mueller Brass (.80)	35½	23½	30
National Sugar Ref. (2)	30	23	26½
New Jersey Zinc (2)	92⅜	69½	82
Newmont Mining (2)	96¾	74¼	83
Niagara Hudson Pwr	11¾	7¾	10¼
Niles-Bement-Pond	44⅞	28½	35⅞
Pan-Amer. Airways (1)	66¾	45¾	55¼
Pepperel Mfg. (3)	70½	55	62
Perfect Circle (2)	41	31½	36
Pitts. Pl. Glass (*2)	140	98¼	119
Sherwin-Williams (4)	145½	117	127
South Penn Oil (*1½)	40½	32½	38½
United Shoe Mach. (*2.50)	90	83	87½

* Includes extras. † Paid last year.
‡ Paid this year.

in the initial quarter this year totaled $6,000,000. This was the largest quarterly volume since 1931 and earnings, likewise, of 16½ cents a share for this period were the best since 1931. The well defined promise of future earning power offered by the company's shares justifies their inclusion in a representative group of common stocks.

The favorable prospects for Westinghouse Air Brake are shared by New York Air Brake Co., and while the former is the larger unit, together they are practically assured the bulk of the brake business. New York Air Brake also manufactures the A-B brake under cross-licensing agreements with Westinghouse. The year 1930 was the last one prior to 1934 in which the company's operations produced a profit and no dividends have been paid to shareholders since 1931. However, the time seems fairly close at hand when dividends may be resumed. In 1934 the company earned the equivalent of 21 cents on its 259,120 shares of capital stock. Last year a moderate loss—$101,667—was shown, but in the first quarter of the current year net was equal to 34 cents a share and estimates have placed six-months profits at $1.35 a share. A comfortable financial position coupled with rising earnings obviously enhances dividends prospects.

Pullman

Subsidiaries of Pullman, Inc., in addition to giving the company a virtual monopoly in the operation of sleeping cars and the like, also give the company the distinction of being the largest builder of freight and passenger cars. Operations in both of these divisions promise to be considerably more active this year. Passenger travel and the use of Pullman accommodations should be stimulated by the recent reduction in basic fares and Pullman surcharges in the East, while orders for new equipment are substantially ahead of last year. Up to June 1, the company had received orders for 4,450 freight cars against none in the same period a year ago, 51 passenger cars against 4 a year ago and 33 trolley buses against 24. Although deficits were reported in 1932, '33 and '35, there were largely the result of a liberal depreciation policy and resulted in no impairment of the company's exceptionally strong financial position. In the first three months of this year net income was nearly double that for the same period a year ago and was equal to 31 cents a share for the 3,820,182 shares of capital stock. Fortified by the upward trend in earnings and ample liquid resources the present $1.50 dividend is assured and the shares combine a measure of investment merit with longer term possibilities for price appreciation.

General Railway Signal

Reflecting a sizable drop in unfilled orders at the beginning of this year, General Railway Signal reported a loss of $171,683 in the first quarter as compared with profit equal to 19 cents a share on the 320,700 shares of common stock in the first three months of 1935. By the end of March, however, the company's orders had gained appreciably and several important contracts were pending. Moreover, the company has the assurance of a large accumulated demand for signalling apparatus and other devices which it manufactures, once the railroads are in a position to finance their requirements. In the years prior to the depression, the company displayed strong earning power, the common showing earnings of more than $7 a share as late as 1930. Dividends have been maintained without interruption, although at a lower rate, and finances are in a strong position. Speculative possiblities for the common, in a period of rising earnings, are enhanced by the comparatively small amount of stock outstanding.

Poor & Co.

Interesting possibilities among lower-priced speculative issues may be conceded Poor & Co., class B shares. The company is a leading manufacturer of various patented railway devices such as rail joints, switch-joint protectors, laying machines, oilers and anti-creepers. In addition the company manufactures commercial drop forgings and malleable castings. The company's products are, for the most part, used in track construction and maintenance, for which unquestionably there is a long deferred need. Business this year has shown a satisfactory response to the favorable factors present in the railroad situation and at the end of the first quarter the company's unfilled orders were more than 2½ times as large as those on hand last year. In the first three months operations recorded a profit of $119,000. Allowing for dividends on the 160,000 shares of class A preferred stock, the latter amount was equal to 16 cents a share on the 362,843 share of class B stock. This compares with 2 cents a share earned on the B stock in the first quarter of 1935. Prior to the depression, earnings on the B stock averaged better than $3 annually. The comparatively small amount of A stock should permit the company to readily liquidate dividend accumulations amounting to $6.38 a share with the aid of further earnings recovery, and both events may be calculated to reflect themselves in the value of the B stock.

American Power & Light

(*Continued from page* 291)

subsidiary preferred stock and then pay interest on one's own debentures largely from dividends distributed on subsidiary common that the preferreds and common of this holding company are subject to a large amount of leverage—that the earnings applicable to the latter will decline drastically with a small decline in subsidiary net income and that their rise will be equally sensational

when subsidiary net income begins to pick up, as it is currently doing.

Before passing from a consideration of the balance sheet, it is to be noted that the American Power & Light organization has no long-term debt maturing this year, next, nor in 1938, while in 1939 the only maturity totals less than $5,000,000. Additional reassurance that financial difficulties are unlikely is to be derived from the fact that at the end of last year consolidated current assets, including cash and United States obligations of $25,000,000, totalled nearly $47,000,000. Current liabilities aggregated less than $20,000,000.

The latest earnings report of the American Power & Light Co. and subsidiaries is for the twelve months ended April 30, 1936. For this period net income was $8,759,787 after taxes, depreciation, depletion, interest, subsidiary preferred dividends and other charges. This was equivalent to $4.94 a share on the combined issues of preferred stocks and compared with $2.96 a share for the corresponding previous period. Reflecting the gains made in net income, the preferred stocks of the American Power & Light Co. were recently placed on a dividend basis which is half their nominal rates—i.e., $3 for the $6 preferred and $2.50 for the $5 preferred. Prior to this they were on a basis of one-quarter their nominal rates. Giving effect to the payment due next July 1, dividend arrears on the $6 preferred are in excess of $16 and those on the $5 preferred about $13.50 a share.

With total preferred arrears aggregating some $26,000,000, it is clear even under the most favorable conditions that payments on the common are remote unless some way can be found to liquidate them other than in cash. So far, no indication has been given that the American Power & Light Co. has evolved any plan similar to those carried out by so many companies over the past year or two to liquidate preferred arrears. It is possible, however, that later conditions will become such as to enable these accumulations to be liquidated by an issue of new preferred, with or without issuing additional shares of common.

Currently, the two preferreds are selling at, or close to, their highs for the past three or four years—the $6 preferred around $63 and the $5 preferred around $54. At these prices, on the basis of the dividends actually being paid, the yield on the two issues is roughly the same, something in excess of 4½ per cent. Whether they are indeed cheaper than the common which today sells around $12 a share depends solely upon the extent of the recovery to be shown in the company's earning power. Should net income continue to mount indefinitely and the political menace fade into obscurity, then the common will probably prove to have been the cheaper in the long run. Without this, however, which is looking at the future in the most optimistic light possible, the preferreds are likely to prove the more satisfactory commitment—never forgetting that both issues are speculations on the present Administration's failure to carry out its plans to ruin the private electric power industry.

Thirty-Five Years Without a Strike

(*Continued from page* 273)

were reprinted and mailed to the teachers, preachers, priests, merchants, doctors, and other business and professional people in every community in which we operate a plant. Hundreds of letters have come to us from business men who state that they have a much better understanding of their relationship to industry than ever before.

On Saturday, June 6, the citizens of Middletown, Ohio, where our company started operations 35 years ago, declared an extra legal holiday honoring George M. Verity, the chairman of our board, for his constructive influence in helping to provide the community with all the recreational, health and character-building facilities necessary to the enjoyment of real American life. Every plant and retail store closed for the occasion. In his response to the many tributes showered upon him by his neighbors and friends, I believe that Mr. Verity expressed the Armco viewpoint better than it has ever been expressed before, when he said:

"Industry's great need is loyal, trained men, of courage, initiative, capacity, fair play, unlimited energy, and resourcefulness; men who are imbued with a spirit of progress and fair play. So industry must first serve its employees if the stockholder's interests are to be protected and advanced."

That philosophy, more than any other factor, is the reason why Armco has always enjoyed the friendliest of relationships with its men. After all, no great victory was ever won, no great or lasting accomplishment ever attained unless there was first confidence built upon a cornerstone of *understanding*.

Texas Corp.

(*Continued from page* 295)

All this great business, the oil properties, the transportation facilities and the refineries, together with investments in non-affiliated companies aggregating nearly $40,000,000, is owned by the holders of the Texas Corp.'s 9,338,876 shares of outstanding common stock. There are, however, certain prior claims represented by some $60,000,000 in 5 per cent convertible debentures, although these will not be outstanding very much longer.

The Texas Corp. currently is engaged in the elimination of all funded debt. Last year it redeemed more than $10,000,000 of the California Petroleum Corp.'s debentures from treasury cash. This year $30,000,000 of the 5 per cent debentures were called for redemption April 1, the money being obtained partly from treasury cash and partly from bank borrowings repayable over a five-year period. Only the other day the company registered $60,000,000 of new debentures with S E C. These will be used to retire all the existing debentures on October 1, next. When all the new debentures and bank loans are finally eliminated, the huge enterprise will truly be the property of its stockholders.

It is, however, just because of this hugeness that the fate of the Texas Corp. must necessarily be inextricably

MARKET STATISTICS

	N. Y. Times	Dow, Jones Avgs.		N. Y. Times 50 Stocks		
	40 Bonds	30 Indus.	20 Rails	High	Low	Sales
Monday, June 1	86.82	152.84	46.49	122.13	121.08	786.250
Tuesday, June 2	86.79	151.97	46.39	121.64	120.32	756.440
Wednesday, June 3	86.89	151.53	46.08	121.63	120.58	635,100
Thursday, June 4	86.83	149.39	45.43	121.16	119.72	767,290
Friday, June 5	86.77	149.26	45.28	120.43	119.09	633,950
Saturday, June 6	86.73	149.84	45.40	120.80	120.33	253,710
Monday, June 8	86.82	151.39	45.75	122.28	121.21	694,050
Tuesday, June 9	86.96	152.90	46.16	123.02	121.72	876,251
Wednesday, June 10	87.01	153.02	46.60	123.82	122.69	1,034,765
Thursday, June 11	87.09	155.16	47.07	124.94	122.97	1,085,740
Friday, June 12	87.01	153.71	46.64	125.52	123.75	998,280
Saturday, June 13	87.06	154.64	46.73	124.42	123.90	375,400

Over-the-Counter

Active Issues
Quotations as of Recent Date

INDUSTRIAL	Bid	Asked
American Book Co. (4)	70	73
Canadian Celanese	26	30
Climax Molybdenum (.80)	44¾	46¼
Columbia Broadcasting "A" (2)	54½	56
Crowell Publishing Co. (*2¼)	54⅝	56⅝
Dictaphone Corp. (1.75)	53	55
Draper Corp. (*4)	68	70
Mercke Co. (.40)	31½	33½
National Casket (3)	47	51
Northwestern Yeast (8)	78	83
Scovil Mfg. (1)	30½	32
Singer Mfg. Co. (*11)	341	345
Trico Products (2.50)	45	46½
Wilcox & Gibbs (1)	25	....
PUBLIC UTILITIES		
Alabama Power Pfd. (7)	75½	77½
Carolina Power & Light Pfd. (7)	92	94
Central Maine Power Pfd. (7)	69	72
Columbus Rwy. Pwr. & Lt. Pfd. (6)	110	112
Consumers Power Pfd. (6)	105½	106½

PUBLIC UTILITIES—(Continued)	Bid	Asked
Dayton Power & Light Pfd. (6)	110	110½
Jersey Central Pwr. & Lt. Pfd. (7)	101	103
Kansas Gas & Electric Pfd. (7)	110	112
Kings Co. Ltg. Pfd. (7)	94	96
Long Island Ltg. Pfd. (7)	84	86
Nebraska Power Pfd. (7)	111½	....
New Jersey Pwr. & Lt. Pfd. (6)	105	107
Nor. States Pwr. Pfd. (7)	87	89½
Pacific Power & Light Pfd. (7)	82½	83¾
Tennessee Elec. Power Pfd. (6)	64½	65¾
Tennessee Elec. Power Pfd. (7)	74⅜	75⅜
Texas Power & Light Pfd. (7)	107	109
Utica Gas & Elec. Pfd. (7)	95¾	97½
TELEPHONE & TELEGRAPH		
American Dist. Tel., N. J. (4)	118	121
Mountain States Tel. & Tel. (8)	143½	145½
Northwestern Bell Pfd. (6½)	118	120
Peninsular Telephone (.60)	19⅜	20⅜
Southern New England Tel. (6)	144¼	146¼

* Includes extras.

bound up with that of the petroleum industry as a whole. If it were a smaller company or less widespread territorially, it might be possible, either because of exceptionally good management or because of some fortuituous circumstance of location, to register a favorable showing at variance with that registered by the industry. This is not to say in the case of the Texas Corp. that the company's own efforts will avail nothing and that it must sit on its heels and await destiny; it means merely that the company cannot be expected to do well should the petroleum price structure become demoralized or should there unexpectedly come a sharp decline in consumption; also, that the company will do best under conditions of sustained demand and steady, remunerative prices. Thus, it is essential to look carefully into the general oil situation.

At the present time, this is distinctly favorable, although not without certain ominous clouds on the horizon which may well never become nearer, but which it would be foolish to ignore completely. On the favorable side there are the great gains made by consumption and the many indications existing that the trend will be a continuing one. Business is better; people have more money and a great deal of it is going into automobiles and the things it takes to run them. More cars are being run more miles and more trucks are being run more miles. Diesel motors are gaining favor for many purposes, while the freedom from dirt and annoyance which follows the installation of an oil burner has a firm grip on the imagination of the American housewife. Thus, is the demand for petroleum products of all kinds headed for new heights.

Unfortunately, however, supply is more than keeping pace with the increased consumption. Not long ago, daily average crude production passed the 3,000,000-barrel mark for the first time in history. Crude oil stocks, although still gratifyingly under those of a year ago, now show a tendency to increase. At the same time, gasoline stocks are close to record amounts, some 11,000,000 barrels above those of a year ago. By and large, it is the refinery output that has been supplying the increased demand for motor fuel and there have been no important decreases in the large stocks on hand.

Such a situation is a threat to the present price structure and, although price weakness is certainly not general, here and there indications of cracking have not been lacking. The main seat of trouble and the focus point of the current anxiety is the new Rodessa field of Louisiana and Texas. The Government in attempting to limit production has sought to impound a large quantity of Rodessa oil which it claims was contraband under the terms of the Connally Oil Control Act. Whether this action will succeed or not, cannot of course, be known until the matter has been passed upon by the courts. It is, however, a good sign that the production of the Pelican Oil & Gasoline Co. which was given an exceptionally big allowable by the Louisiana State Conservation Commission was declining by the latest reports.

It will be seen therefore that the oil industry at present is poised rather delicately. Entering as we are the season of greatest consumption, the high rate of crude production is not very alarming, provided there is no marked increase from this point. It is, however, essential that gasoline stocks be reduced materially this summer for, unless they are, one can readily imagine price demoralization as we enter the season of decreased consumption next fall. To say definitely that the necessary reduction in gasoline stocks will not take place is to be unwarrantedly pessimistic. This is to conclude that all will be well with the oil industry until there are more clear-cut indications that such an attitude is unsound.

In such a setting, the stock of the Texas Corp. is a desirable holding. It is well entrenched in the field, is providing aggressively for the future when oil will not flow like water in the United States. At the same time, it is sufficiently strong financially to weather the worst should that unfortunately befall. While a dividend of $1 a share does not afford a particularly large current return for a stock selling at $34 a share, it is an issue whose position is being improved by the elimination of prior charges and upon the completion of this program stockholders are likely to do much better in a favorable oil setting.

The South Comes Back

(*Continued from page 289*)

parison on a per capita basis which are limited to Southern cotton-growing states. It is plain, however, that the showing there could not be quite as favorable as it is for the rest of the country, there being a larger percentage of unemployed farm labor.

For the coming crop year it is anticipated that acreage will be around 35 million, up from 27.8 millions actually planned last year. This early there is no possible forecast as to crop outlook, other than that moisture conditions are spotty.

Cotton consumption has been at record high at home and abroad and it may develop that the bogey of foreign growers' competition is not so awesome after all. However, if we continue the policy of government loans, keeping the price of American cotton above the world price level, instead of meeting all competition and relying upon the undeniable quality of the American

fiber, then we may expect foreign growers to respond to a made-to-order set of circumstances.

The idea seems to gain ground that the Southern cotton farmer lost, in one way and another, more than he gained by the operations of the A A A and the benefit checks received.

Yet taken as a whole it should be realized there has been marked improvement in the South, as elsewhere, as compared with 1932-1933 conditions. The South has had some money to spend but many wants piled up, the greater part of which remain unsatisfied. The South has been buying electrical machinery, refrigerators, road building machines, engines and boilers, furniture, cement, brick, copper and brass goods. All these increased in respectable percentages as shown by shipments from the North Atlantic Seaboard and the Chicago district into ten South Atlantic states. There is prospect that given a fair crop and price relationship such purchases may increase still further.

There is no space to discuss international trade and foreign competition, but aside from these two factors, there is now demand from industrial consumers, requiring nearly one-third of a normal crop of cotton.

What the Southern cotton planter needs is freedom from interference, an open market, where a bumper crop can be absorbed, at a price—a world price; and an equally free market for the things he buys where his dollar has the same purchasing power as the city man's dollar.

Significant Foreign Events

(*Continued from page* 301)

$590,742 in 1934, while exports into the United States amounted to $3,971,233 as contrasted with $2,203,865 for the preceding year. Behind the improved abiilty to buy stands not only an increase in Yugoslav exports generally, but also a strenuous governmental campaign of relief and works comparable in some details to that of the United States. Peasants in Yugoslavia are paying for goods with their creditors' money, for the government has extended for another year the moratorium on peasant debts. Yugoslavia, like the United States, has a drought area, to which the government has granted 20,000,000 dinars toward recovery. Government works have stimulated trade, for the program now under way calls for the expenditure of a thousand million dinars. A mild inflation, based on the reduction of the required coverage from 35 per cent to 25 per cent and the subsequent expansion of circulation by about 11 per cent from about 4,307 million dinars to about 4,838 million dinars, has speeded up affairs. Mineral production is on the rise. The output of bauxite, which is especially influenced by American aluminum interests, advanced 300 per cent between 1934 and 1935.

Obviously it is to Germany's interest to form an indirect pact, through and including Poland, with the revigorated Yugoslavs. On their side, the Serbs, Croats and Slovenes find that German interests loom larger in their lives from day to day. German purchases in Yugoslavia have become so important, and so overshadow Yugoslav purchases in the Reich, that under clearing agreements there is an arrears of nearly nine months in settling for Yugoslav exports (since the German buying has far outstripped the Slav). Toward Yugoslavia, then, Germany is approximately in the same position as the United States is today toward the Reich. When American firms cannot get their money in any other way, they take over a German factory, as has recently been the case both in the automotive and office equipment industries. German firms are acquiring firmly entrenched positions in Yugoslav economy in the same way, and recently, according to the Belgrade Breme, invested in the renovation of the steel mills at Zenutza in Bosnia in order to reduce the outstanding Yugoslav clearing balance, which approximated 475,000,000 dinars. French investments in Yugoslav banks still total 800,000,000 dinars, as opposed to Germany's 180,000,000, the United States' 300,000,000, and Italy's 100,000,000.

Most decisive has been Germany's advance to first place in the list of powers buying Yugoslav exports; standing first with 18.65 per cent in 1935 to France's 1.66 per cent and Italy's 16.68 per cent of the total Yugoslav exports.

Mack Trucks, Inc.

(*Continued from page* 304)

fact that aggregate truck sales in recent months for the industry as a whole have registered large gains, there still remains a considerable backlog of potential demand to replace the large number of obsolete and outworn trucks still in service. Better business generally should prove a sharp spur to this demand.

The entire capitalization of Mack Trucks is comprised of 597,335 shares of stock. The company has no funded debt or bank loans and working capital at the end of last year was more than $20,000,000. A strong financial

position has permitted the company to maintain 25-cent quarterly dividends since 1931, although not earned. Given a continuation of the recent gain in the company's business, earnings should register a marked improvement this year and may possibly exceed $2 a share. On this basis, the shares offer profitable speculative inducements.

Crucible Steel Co., of America

Crucible Steel Co. of America is ranked as the leading manufacturer of high-speed and tool steels. Further the company is one of the leading producers of crucible steels and output also includes a wide variety of alloy and special-purpose steels, a branch of the steel industry which has been gaining steadily in importance. In point of size Crucible is not of the larger steel units, its rated annual capacity being less than 1% of United States Steel's,

Earnings Per Share*				
1st 6 mos. 1935	1st 6 mos. 1936	Recent Price	Div.	Yield
1.83	3.70(e)	32	None	....

*Preferred Stock (e) Estimated.

but in its particular branch of the industry its importance is well established.

Steel bars comprise a substantial portion of Crucible's output but the company, strictly speaking, is not a producer of heavy steel exclusively. A considerable amount of its output eventually finds its way into many of the lighter forms of fabricated steel. Demand emanates principally from such sources as the machine tool industry and manufacturers of machinery, aircraft, automobiles, agricultural equipment and the oil, mining and household equipment industries.

Although this diversity of outlets did not completely bulwark the company against the adversities of the depression, it undoubtedly aided the company in coping more effectively with them than might otherwise have been the case. Losses reported by the company in the three years prior to 1934 aggregated about $6,000,000 and in 1931 a bank loan for $2,000,000 was negotiated. Since then Crucible has made impressive strides in the direction of recovery.

In 1934, operations returned a small profit and net of $75,157 in that year was equal to 30 cents a share on the 250,000 shares of 7% preferred stock. The rate of improvement was accelerated last year, particularly during the last half, and net profit totaled $1,268,176, or $5.07 a share for the preferred stock. Additional evidence of recovery is to be found in the elimination of bank loans, the completion and payment for a $10,000,000 modernization program, a substantial reduction in funded debt and steps toward the elimination of accumulated dividends on the preferred stock. Of its debentures, the company has retired $4,500,000 since November, 1935, leaving $5,500,000 due in 1940. Several payments have been on account of preferred dividend arrears and the most recent disbursement of $1 a share has reduced accumulations to $26.25.

While dividends on the company's 450,000 shares of common stock obviously are not imminent, and the probabilities are that the management will undertake the further retirement of debentures before considering the complete liquidation of preferred accumulations, the common shares have well founded possibilities for price appreciation. The company does not issue quarterly reports, but it has been officially stated that Crucible's business in the first quarter of this year was at a rate to indicate earnings more than double the results for 1935. As yet the steel industry, as a whole has experienced but a relatively small measure of recovery but the outlook is promising and Crucible should be an important participant.

Happening in Washington

(*Continued from page 271*)

President—except Hull who once had no influence. Look for a shake-up if Roosevelt is re-elected, with a pronounced accession of New Dealers, and no old-time Democrats. Even Cummings is slated to retire.

Republican convention has not had any effect on tone of unprejudiced guesses of the November result. They all favor Roosevelt. . . . Plenty of time for a change in the odds. . . . Democrats aver that they are too firmly entrenched in business recovery to lose any more of the middle-class support than they have already lost; further, they claim that from now on they will gain with the butter-and-egg sector, which is feeling the penetration of public money. Heavy construction for the first five months of the year totals about a billion dollars—three fourths public funds.

Republicans assert that the same group is convinced that it has got all the fat it can out of subsidies and will pay more attention to what the aftermath of spending is going to take out of them by way of taxation.

Best appeal the Administration has made to business support is through the Federal Housing Administration, which has been first, last and all the time for stimulation of the basic building industry, regardless of uplift theories, Ickes, Tugwell, et al., and has made thousands of dollar-and-cents contacts with business men throughout the country. President has apparently given Administrator Stewart McDonald a free hand.

Traditional seasonal business slump in July will be the least ever. Expected to lead to an exuberant fall. Government will do everything in its power to make the autumn the best since 1929. The stump speakers will berate wealth and the wealthy—but nothing will be allowed to interfere with mounting records of business activity.

Abe Lincoln's advice against changing horses in mid-stream will be worked to the limit by all Democratic stump speakers and other means of communicating information to the wavering voter.

What's Behind the Strength in Merchandising Issues

(*Continued from page 302*)

large stores, must each be considered on its own merits.

The most important things to watch in connection with all retail trade is the trend of sales in relation to the price level, from which can be derived the trend of unit sales. Secondly, the trend of profit margins must be given the greatest consideration. Finally, there is the matter of taxation, both general and specific. These three factors are subject to drastic change, either favorable or unfavorable, almost overnight. At the present time, there are more green lights along the road than there are red, but an investment in retail trade is never one that can be made and forgotten.

For Features to Appear in the Next Issue

See Page 263

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